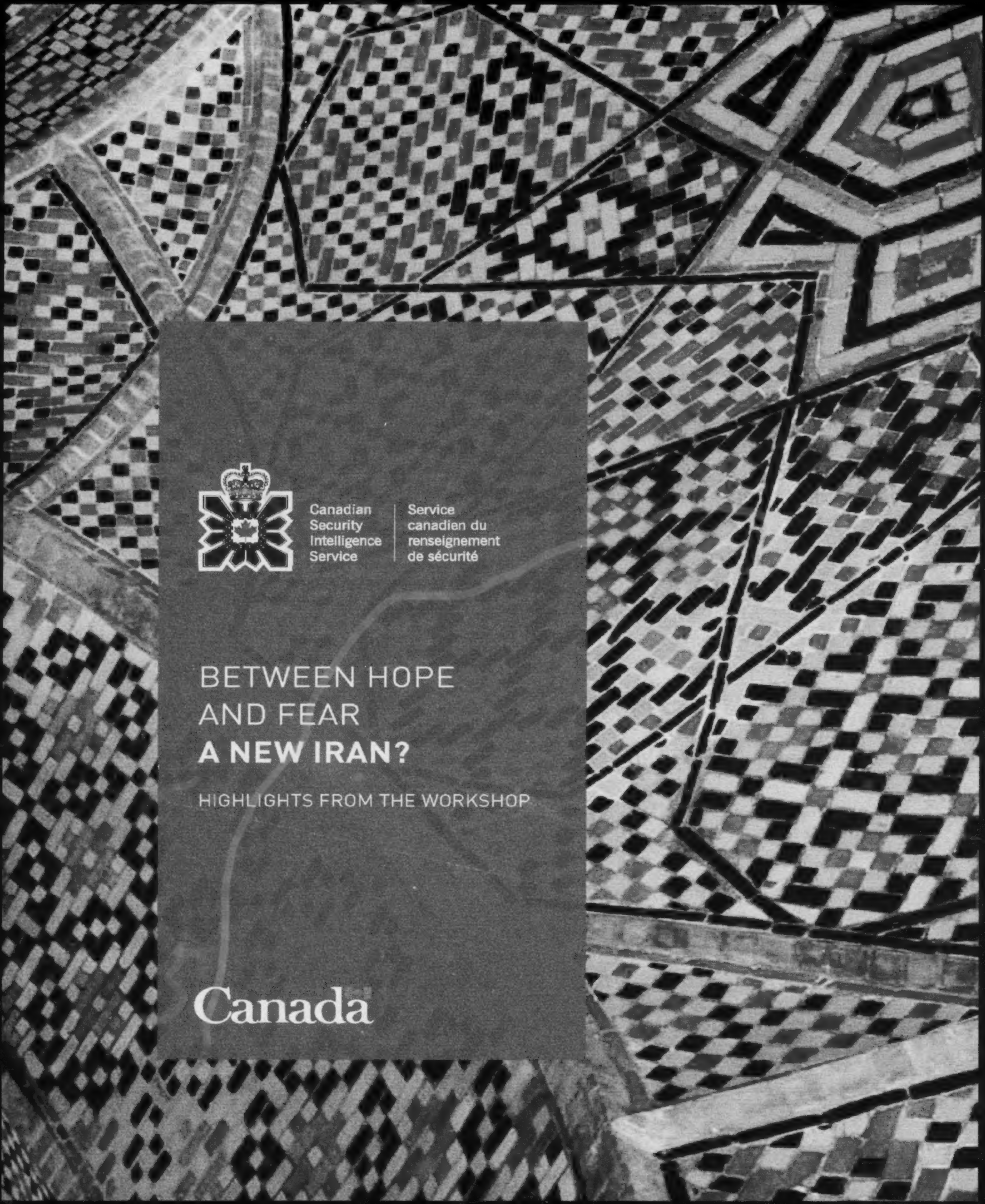

Canadian Security Intelligence Service | Service canadien du renseignement de sécurité

BETWEEN HOPE AND FEAR
A NEW IRAN?

HIGHLIGHTS FROM THE WORKSHOP

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THE WORKSHOP AND ITS OBJECTIVES

On 1 June 2016, the Canadian Security Intelligence Service (CSIS) hosted a workshop to examine a broad range of recent developments influencing Iran's political landscape, and their security consequences. Organised under the CSIS Academic Outreach (AO) program, the event sought to assess what has changed—and what has not—following an international agreement putting constraints on Iran's nuclear program.

Held under the Chatham House rule, the workshop was designed around the work of multiple researchers from North America, the Middle East and Europe as well as on the insights of security practitioners representing a range of domestic and international experiences. The papers presented at the event form the basis of this report. The entirety of this report reflects the views of those independent experts, not those of CSIS.

The AO program at CSIS, established in 2008, aims to promote a dialogue between intelligence practitioners and leading specialists from a wide variety of disciplines and cultural backgrounds working in universities, think-tanks, business and other research institutions in Canada and abroad. It may be that some of our interlocutors hold ideas or promote findings that conflict with the views and analysis of the Service, but it is for this specific reason that there is value to engage in this kind of conversation.

EXECUTIVE SUMMARY

Overview

- Conventional thinking holds that Iran is on the verge of a major change as the Revolution is now firmly into its late thirties and is increasingly feeling its age.
- The nuclear deal indicates that Iran may be ready to engage with the US, though this will not be automatic or easy.
- While many believe that Iran's international position is strengthening, others are of the view that Iran is playing a weak hand well and taking advantage of the mistakes of others, but has to contend with serious structural weaknesses in terms of its broader regional and global position.
- Despite the growing logic of the need for major change in Iran, it is not assured. The Iranian system has shown a marked propensity to "muddle through" and escape the need for serious change. It may continue to do so.

Iran's domestic political situation

- The way factions in Iran have tended to be classified ("Moderates", "Pragmatists", "Reformers", "Hardliners", etc.) may no longer be applicable. Indeed, the labels we in the West have given to these various groups have said as much about our understanding of, and our hopes for, Iran as they have about the real situation on the ground.
- Instead, it may be more sensible in today's political landscape to divide the major political forces in Iran into those who, in varying degrees, support the predominance of the theocratic aspects of the present regime, and those who, in varying degrees, wish to see the republican elements of the Iranian system become increasingly dominant.
- Despite the leadership's dislike of organised political parties as potential challengers to its control, it will likely not be able to prevent them indefinitely. If such parties do come into being, the question of how they are organised and run will have a significant impact on the evolution of the system.

- Most believe that the current Supreme Leader will pass from the scene in the next few years due to old age and illness. If this happens, the process by which he is replaced will be a defining moment for the system.

- Although the constitution specifies a replacement process, it is unlikely to be followed. Instead, backroom deal-making will decide the outcome.

- As there are many competing factions and interests, the outcome may be the creation of a committee to fulfill the role of the Leader, instead of one man. If a single individual is selected, the disparate factions may opt to agree on someone who is older, and thus not likely to sit in the position for decades as the present Leader has done.

Iran's regional situation

- There is a popular perception in the West, especially among those suspicious of Iran, that it has a long-term plan in the region towards which it is progressing methodically.

- However, many Iran experts believe that, though the country has some broad declaratory goals, it has little in the way of a concrete regional policy.

- Instead, these people believe Iran is making it up as it goes along, taking advantage of opportunities caused by others mistakes, and responding in a largely ad hoc fashion to regional developments in the shadow of the deepening infighting at home over means and goals in the region.

- In particular, the significant infighting which takes place within and among the multi-faceted security and intelligence services, and also between those services and the other forces on Iran's political landscape, means that different power centres in Iran take actions across the region which may not be the result of agreed policy decisions or even necessarily coordinated.

- Though Iran has successfully penetrated the conflicts in Iraq and Syria, it is playing a largely defensive game and is trying to balance contradictory objectives, which it can service in the short term, but which cannot be the basis of long-term success.

- For example, in Iraq, Iran needs a weak country which will not threaten it again, but cannot accept the break-up of Iraq as this would unleash centrifugal forces that would negatively impact Iran's basic interests. So some in Iran support the central government, but others support the militias which hinder the ability of Baghdad to really control the country; Iran positions itself as a mediator between these forces, but also promotes the fighting between them.

- Can this contradictory, high-wire balancing act continue indefinitely? It seems doubtful. Either one side in Iraq will win, with potentially serious consequences for Iran, or forces of the two sides will become tired of being pawns for Tehran and find ways to cooperate, which would also not be in Iran's interests.

- In Syria, Iran has helped the Assad regime to survive, but how much influence has this really bought Tehran? Assad has shown a high degree of skill at playing his sponsors off against each other, and at playing chicken with them since they have no other alternative but to support him once they are committed. Iran may well have got itself into a situation in Syria where the tail is wagging the dog.

- The biggest regional issue Iran faces is the growing rivalry with Saudi Arabia, which is a combination of a long-standing *Realpolitik* rivalry between two aspiring regional hegemons (which pre-dates the Iranian Revolution) and an increasing sectarian split between Sunni and Shia Islam. Most experts are the view that it is Riyadh which has cynically stoked the sectarian aspect of this situation far more than Iran, though Tehran is not blameless. There is growing concern that the sectarian aspect of the dispute, though perhaps initially played by Riyadh as a card, is in danger of getting out of hand and increasingly consuming the region as popular anger takes over with each atrocity, and alleged atrocity, committed by agents of one side or the other.

Iran's global situation

- The implementation of the nuclear deal, the Joint Comprehensive Plan of Action (JCPOA), will be far from smooth. While the technical aspects of the deal are complex, it will be the internal political games in Iran which will pose the biggest challenge to the implementation of the agreement, as various factions and groups vie for supremacy.

- Even if sanctions directly related to nuclear issues have been eased or removed as the JCPOA has been implemented, this does not mean that all sanctions have been lifted. As different elements in Iran pursue various regional and other agendas (such as the ballistic missile program), other sanctions will be strengthened and imposed. Wide swathes of the Iranian public cannot be counted on to make the necessary distinctions between sanctions imposed for one reason and those imposed for another. Critics of the JCPOA will take advantage of this to weaken support for the deal over time.

- The Supreme Leader remains extremely cautious about wider engagement with the West in general and the US in particular. He fears the "contamination" of the Revolution through the weakening of its "moral strength", and commitment to the ideal of "resistance", but this has already begun, to a large extent because the young in Iran have tired of the rhetoric and are eager for change.

- While some in the West fear that Iran may turn to Russia and China as strategic partners, thereby escaping the need for reforms that the West will insist upon if a true relationship is to be achieved, there are serious problems with both countries from Iran's point of view.

- Russia and Iran historically have had a much worse relationship over many centuries than have Iran and the West. While Iran may be willing to act as though it has a strategic partner in Russia for largely tactical reasons, there is great and long-standing mistrust of Moscow in Tehran. Iran also recognises that Russia is a fundamentally weak actor on the world stage, despite Putin's bravado. Thus, to be anti-Western in Iran is fundamentally *not* the same thing as being pro-Russian though that appearance may be given from time to time.

- China is a country with which Iran can do business, but no one in Tehran is under any illusion that Beijing would ever really support Iran on anything if that were contrary to China's perception of its interests, and that Iran's needs figure low in China's calculation of those interests.

- Against a generally gloomy prognosis, one can discern possible hopeful scenarios. In particular, because most Iran watchers focus on the country's elites, we have an incomplete understanding of evolving views. Those indications we do have point to a restless population that is ready for fundamental change. The fact that the US-Iran dialogue taboo has been; that economic logic suggests an eventual opening of Iran, despite attempts to stop it; and that US and Iranian interests in the region are aligning in at least some ways as the US and Saudi Arabia enter a more strained period, all create a potential for transformative change.

- But there is no identifiable process to take advantage of these trends and marshal them into an unstoppable momentum for change. It is exactly the creation of such a process that the Supreme Leader and many of those around him seek to prevent. How well he will be able to do so, and for how long he will remain on the scene, will determine the future of Iran's relationship with the world.

Iran's economic situation

- It is an open question as to whether the sanctions imposed on Iran, or its own mismanagement of the economy and corruption are the prime causes of its dismal economic performance. If the economy does not improve as sanctions are lifted, this will be a significant cause of embarrassment for the proponents of the JCPOA. For this reason, some hardliners may welcome, and even seek to stimulate the imposition of additional sanctions as they will provide an rationale for continued poor economic performance.

- At the least, continued uncertainty over where the sanctions are going, and the possibility of "snap back" scenarios, mean that longer-term investments in Iran are unlikely; people are willing to sell things to Iran, but few will make long-term, multi-billion dollar investments until they know that these will not be wiped out if relations suddenly worsen. It is exactly these kinds of investments Iran needs, most particularly to modernise its ageing oil and gas production and transportation facilities.

- Political reform and economic reform are therefore inextricably linked in Iran. President Rouhani and those around him know this and their agenda reflects it.

- There are pockets of potential economic hope. Unlike most Arab countries in the Middle East, Iran does have a genuine and indigenous entrepreneurial and manufacturing class. It is stunted and has had to survive in an artificial environment for decades, but it is there and has proven historically to be resilient. If it were unleashed it could stimulate respectable growth—not enough by itself to lift Iran out of its malaise, but certainly enough to make the point that further economic and political reform can lead to prosperity.

Conclusion

- Iran is, in many ways, at a crossroad: significant political change is expected in the coming few years, most notably if the Supreme Leader departs the scene. Most importantly, the population is restive and wants change.
- None of these factors, in themselves, will lead to far-reaching change and there are powerful forces who do not want it. There has yet to emerge a concrete and resilient process whereby the proponents of change can harness and manipulate the various trends and forces that seek change. This is the missing ingredient. It is difficult to know what event, or events, might lead to the creation of this spark.

CHAPTER 1

CAN IRAN BECOME "MODERATE", AND WHAT ARE THE IMPLICATIONS FOR THE WEST?

On the list of concerns that unsettle sceptics of the Iran nuclear deal, one issue looms above all others. Beyond break-out timelines and snapback sanctions and the infinite technical details contained in the meticulously parsed 159 pages of text released after the July 2015 conclusion of tortuous negotiations, what matters most about the accord is its impact on Iran's often unpredictable post-revolutionary politics. Can an agreement crafted through intense dialogue with an old adversary alter the essence of the Islamic Republic and its turbulent relationship with the world? And what kind of Iran is likely to emerge from this extraordinary re-opening of a revolutionary state, particularly once the negotiated limits on its nuclear program begin to expire?

The nuclear agreement did not address Iran's political system, and in his assiduous defence of the bargain, US President Barack Obama and other senior US officials repeatedly insisted that the accord does not rely on the expectation of political change within Iran. In a post-deal press conference, Obama argued that "this deal is not contingent on Iran changing its behaviour. It's not contingent on Iran suddenly operating like a liberal democracy. It solves one particular problem, which is making sure they don't have a bomb[1]". The Obama administration hedged almost reflexively throughout its efforts to win approval for the deal.

Iran itself represents the most important variable in determining whether this arrangement succeeds or fails. While the deal establishes copious mechanisms for verifying, rather than trusting, that Tehran is upholding its end of the bargain, even the most stringent monitoring efforts cannot sustain a pact with a fundamentally unwilling partner, or one that is determined to abjure its obligations under the deal.

Ultimately, it is the nature of the Islamic Republic that amplifies the threat posed by its nuclear ambitions and animates the most tenacious opponents of the deal. It is the Iranian government—not the terms of deal itself—that will determine whether the agreement can provide a springboard to other avenues of cooperation on thorny differences between the two old adversaries—an implicit but important selling point for nuclear diplomacy. For that reason, the fierce debate that erupted in Washington after the agreement was announced, and which continues to animate the US policy debate over Iran, hinges on the prognosis for Iran's future.

Critics see the regime as irredeemably malevolent and, on this basis, castigate the terms of the deal as insufficiently ironclad. Many US policy-makers harbour an instinctive suspicions towards the notion of Iranian moderates or wishful prospects of political change in Iran. Given the history, this is hardly surprising. After all, it was the siren song of strengthening purported Iranian moderates that persuaded the Reagan administration to indulge in the disastrous and illegal scheme to sell arms to Tehran and funnel the profits to Central American rebels. The first Bush administration tried and failed to work out a deal with some of those same moderates to secure the release of Western hostages held in Lebanon. The Clinton administration sought to leverage the rise of Iranian reformists through repeated overtures that went unreciprocated.

From the perspective of many US policy-makers, Iran's convoluted factional landscape offers pitfalls but no promise, either for meaningful change on the issues of greatest concern, or for generating traction on overcoming the long bilateral estrangement. Even as Iran's political dynamics shifted and the social basis for the regime evolved considerably, much remained unchanged: the regime's support for terrorist organisations, rejection of the possibility of peace between Arabs and Israelis, its massive investment in a covert nuclear program, and its mistreatment of its own citizenry. This interpretation caricatures Iranian moderates as either dupes or ploys, smiling front men who are deliberately or unwittingly elevated in order to lull the erosion of sanctions and advance a nefarious determination to achieve nuclear weapons capability.

Meanwhile, even Obama's restrained public rhetoric betrays his trademark audacious hope—the same hope that propelled six years of diplomatic outreach to Tehran, even when the domestic politics there appeared utterly inhospitable. The administration's approach was predicated on the conviction that Iran's leaders could be persuaded to alter their most dangerous policies. Now that this presumption has been validated by the achievement of an agreement, what was once mostly hypothetical—the proposition that Iran can become moderate—seems temptingly inevitable. The possibilities seem infinite; if Tehran can apply a rational cost-benefit assessment to one aspect of its foreign policy, why not others?

One understands that optimism; one is deeply susceptible to its allure. But those who have observed Iran long enough may resist it with reason. We have seen a version of this movie before, and know that the ending will almost certainly disappoint. The Islamic Republic has been struggling to reform itself for 25 years—the better part of its post-revolutionary existence—and each time, the experiment has gone awry. Iran's revolutionary theocracy has evolved since 1979, but the most problematic aspects of its ideology and institutions have managed to endure. Why? And will the current experiment result in a different outcome?

Any realistic interpretation of the prospects of sustained moderation requires a thorough understanding of the historical context. The Islamic Republic has experienced four previous episodes in which political movements sought to temper the ideological impulses of the revolutionary state, in divergent directions and with a range of outcomes. In fact, the dichotomy between ideological and liberal impulses was effectively baked into the structure of the Islamic Republic, through its novel fusion of theocratic-authoritarian and republican institutions. The elevation of Mehdi Bazargan, a religious intellectual with a background as a technocrat, to lead the post-revolutionary provisional government positioned that institution, and more broadly, the executive branch of the new state, in a debilitating conflict with the revolution's spiritual guide, Ayatollah Ruhollah Khomeini, and his closest advisors.

During his brief tenure, Bazargan sought to hold the centre as the dynamics of competition among the revolutionary coalition pushed each contender to occupy the extremes. His mission was the re-establishment of central authority, a task that by definition entailed deliberation, collaboration and moderation—which were also the hallmarks of Bazargan's personal and political style. But this approach was foiled at every turn by the willingness of rivals to utilise informal channels of authority, such as the revolutionary committees, security forces and tribunals, as well as by their tendency to invoke absolutist rhetoric. At every turn, Bazargan found himself outmanoeuvred and disempowered. Iran's experience had discredited the liberal, reformist option, creating "a break in the continuity of reform-oriented politics, and decline of a political culture in which the idea of reform from within remained a viable option[1]".

...the dichotomy between ideological and liberal impulses was effectively baked into the structure of the Islamic Republic...

The November 1979 seizure of the US embassy, and its endorsement by Khomeini, officially decided that power struggle in favour of the clerical faction, which quickly set about formalising their interpretation of an Islamic state. And yet the ideological tensions and competition for power within the nascent theocracy endured, and actually intensified, even as Tehran quickly found itself waging an existential battle against its fiercest regional adversary, Saddam Hussein.

The war's devolution into a frustrating, ferocious stalemate gradually generated new pressures within the revolutionary regime and a parallel ideological gridlock among the political elite. Over time, the monumental costs—in economic, political, and social terms—of sustaining the conflict with Baghdad helped advance a gradual and ultimately incomplete rationalisation of Iranian politics and policy. It began even before the end of the war, but came to fruition in tandem with constitutional revisions and a bureaucratic reconfiguration necessitated by Khomeini's death a year later. Ali Rafsanjani, who assumed the newly empowered post of the presidency, was determined to build upon the creeping moderation already underway in Iran's domestic economic and social policies and formulate a full-fledged agenda of reconstruction and development.

In re-orienting the revolutionary state, Rafsanjani faced an array of thorny challenges: an embryonic balance with Khomeini's successor, former president Ayatollah Ali Khamenei; deep-seated suspicion from Iran's neighbours and potential trade partners in Europe and Asia; political opposition from the theocracy's leftist camp, who opposed his efforts to re-engage with European powers and introduce market reforms; per capita income eroded by the revolution, war and the post-revolutionary baby boom to nearly half its value under the monarchy; and a rapidly changing international geostrategic environment, with the collapse of the Soviet Union and the emergence of a new Arab-Israeli peace process brokered by the US.

The reconstruction program got off to a strong start; however, a combination of factional obstructionism, low oil prices and economic missteps undercut the early successes. Pent-up consumer demand and the theocratic aversion to long-term borrowing created a perfect storm: a short-term debt crisis that fed already robust inflation rates and deterred foreign investment while corruption appeared to mushroom. The president's preferred solutions—such as utilising the system's unelected institutions to blunt the sway of his left-wing rivals—insulated his agenda only marginally, and his bolder initiatives, including a bid to woo Washington via upstream oil investments, fell flat amidst growing concerns about Iran's support for terrorism in the Middle East.

The trials and tribulations during the Rafsanjani presidency played a major role in shaping Iran's subsequent evolution. The clashes between Rafsanjani, the reforms' architect and chief advocate, and the Islamic leftists, who remained wedded to state-centric policies and viewed capitalism as a betrayal of the revolution's ideals, helped to reshape the revolutionary state's ideological battleground. Having found themselves suddenly side-lined on the margins of the state they had helped create, Iran's Islamic leftists began to reassess their handiwork and plot their way back to power. These tensions cultivated the first serious movement to reconsider the tenets of Iran's Islamic state.

The movement that arose around the re-imagined leftists launched the Islamic Republic's third experiment in restraining the ideological imperatives of the revolutionary state. The politicians who spearheaded what quickly became known as Iran's reform movement began as loyal adherents to the Islamic system—eager participants in the revolution frustrated as the state assumed more autocratic features. The reform movement's leadership neither rejected the Islamic system's fundamental premise nor sought its wholesale removal. Rather, they wanted to rehabilitate the Islamic Republic by implementing its limited guarantees of representative government, equality and freedom.

These were the campaign slogans of Mohammad Khatami, whose idiosyncratic 1997 bid for the presidency unexpectedly caught fire and upended a more conservative presumptive successor to Rafsanjani. Khatami's tenure brought the debates over transforming the Islamic Republic's political compact well beyond the system's elite for the first time, and his popular mandate of 20 million votes endowed his two terms with a potent undercurrent.

For Khatami and his cohorts, the most effective pathway for ameliorating the system's deficiencies was through a focus on rule of law. Their liberal reading of Iran's constitution facilitated the quadrupling of the country's press outlets in Khatami's early years, which helped re-politicise a new generation of Iranians and challenge Iran's prevailing orthodoxies and oligarchies. Insistence on rule of law empowered an investigation into the shadowy intelligence war against dissidents and some pushback against the indiscriminate violence perpetrated by the country's security bureaucracy. By implementing long-disregarded constitutional provisions for local elections, Khatami expanded national support for democratic institutions and dispersed some authority from the centre to Iran's provinces. They sought to rein in the judiciary, enhance the supervisory role of the elective body that selects Iran's supreme leader, and empower the authority of the president.

The reformists found many of their initiatives rebuffed or undone by the orthodox defenders of the system who remained in control of the key levers of power, including the judicial system, the security forces and the thugs on the streets. Their apparent futility in the face of the conservative counter-reaction exacerbated public dissatisfaction with the pace of change under Khatami. And in the final humiliation, the reformists' rivals mirrored their deployment of the media as well as their calculated strategy to utilise the electoral institutions of the Islamic Republic to their partisan advantage.

If Khatami was perceived as too restrained in his willingness to push back against saboteurs, the fourth and final struggle to advance moderation began with the eruption of public protests and the emergence of the first serious indigenous opposition movement since the early years of the Islamic Republic. The contested 2009 re-election of Mahmoud Ahmadinejad to a second term of the Iranian presidency galvanised a larger number of Iranians—as many as one million protestors participated in some of the early demonstrations by some estimates—than at any time since the revolution itself. Unlike the three prior episodes at moderating the Islamic state, the Green Movement was only tangentially led by elite political actors; the putative victors in the race, reformist candidates Mir Husayn Musavi and Mehdi Karroubi, helped animate the first crucial stage of taking to the streets but the activism was primarily driven by grass-roots mobilisation. However, while the 2009 protests sought to restore the legitimacy of Iran's electoral institutions via popular pressure, they were handily repressed.

Each of these episodes helped further societal processes of evolutionary change within the Islamic Republic. Yet, viewed as discrete initiatives, none of these four efforts at change from within the system can be judged successful. An examination of the historical record suggests that there are at least four primary factors that have constrained each of the efforts to change the Iranian system from within.

The first factor is a structural one, and in many respects looms above all others. The Islamic Republic is not a typical authoritarian system. Fundamentally, the post-revolutionary governing system in the Islamic Republic biases all outcomes in favour of authoritarian control, as the deliberate limitations of the existing system create insurmountable hurdles for reforming policies or institutions. To remain politically viable in the Islamic Republic entails obeisance to the unquestioned hegemony of the Supreme Leader, who remains unwilling to contemplate meaningful devolution of his authority or transformation of other essential elements of the theocratic system. It is a kind of prisoner's dilemma: advocates of change must play by the rules of the game, including fidelity to *velayet-e faqih-ye motlaq* (absolute guardianship of the Jurist). Anything less promises a prison sentence or exile—and effective irrelevance to political outcomes in contemporary Iran.

> *...the post-revolutionary governing system in the Islamic Republic biases all outcomes in favour of authoritarian control...*

However, in practice, playing by the rules of the game costs moderates and reformers the entire match. Iran's robust electoral system has tended to focus resources and energies on the discrete objective of securing victory at the ballot box. The forces behind the reform movement, for example, devoted considerable time and energy to strategies aimed at enhancing their control of various electoral institutions, and to strengthening those same institutions: implementing a strategy to avoid disqualifications, honing their messages, preparing a slate of candidates, as well as seeking legislative remedies for the constraints on the authority of various representative institutions.

However, electoral remedies cannot in fact compel outcomes within Iran's hybrid republican system; their capacity to shape day-to-day policies remains explicitly and absolutely circumscribed. In particular, the use of force, both legal and extra-legal, has remained almost wholly outside the grasp of the elective institutions—meaning that moderates can neither impose penalties on their adversaries within the political system, nor can they insulate their own ranks from the threat or use of coercive measures.

If the structure of power within Iran tends to undercut gradual change, so too do the tactics adopted by the partisans on either side of the debate. The Iranian political actors who are interested in a liberal evolution of the system have sought to emphasise the art of the possible, both as a means of ensuring their permissibility within the narrow parameters of tolerated political discourse and to avoid inflating popular expectations. They have been selective and focused, targeting their efforts in limited sectors—such as economic policy, for Rafsanjani, or incremental reforms, during the Khatami presidency. Within these constrained horizons, they have achieved some results. But selective or targeted reforms have failed to create institutional linkages or popular momentum that might empower a platform of broader or systemic change.

Meanwhile, they encounter in the opponents of change a seemingly unlimited willingness to avail themselves of any means necessary to assert their pre-eminence and forestall reforms. They have a long experience in provoking crises as a means of reinforcing revolutionary fervour—for example, the pronouncement of a fatwa condemning British writer Salman Rushdie to death for his novel *The Satanic Verses* in 1989; Mahmoud Ahmadinejad's deliberate demagoguery around Israel and the Holocaust; even the torching of the Saudi embassy in Tehran in 2016. By reviving ideological furies, these episodes obliged the reflexive reinforcement of the status quo, and in so doing enhanced the advantage of hardliners at the expense of their factional adversaries.

In addition, opponents of change have proven their capacity to utilise extremist tactics to block meaningful shifts in the political balance of power. Moderates and reformers have been the victims of skilful campaigns of character assassination, political "dirty tricks", impeachment, prosecution, harassment and intimidation, and even deadly violence. Early in his presidency, Khatami lamented the fact that he had faced a new crisis every nine days, and despite the proliferation of assaults against his supporters and his agenda from within, he never managed to devise an effective strategy to repel or overcome them.

Second, as the brief historical review presented above underscores, the cause of gradual change or moderation appears to have broad support, but it has ultimately proven insufficiently robust to sway opponents of reform or moderation. A little democracy can be a dangerous thing; political literacy and activism is directed into the available channels. Iranians tend to vent their political frustrations against those political actors who are most readily accessible, and in this fashion they have repeatedly lost faith in the leaders they elected who promised change but failed to fully deliver.

Both Rafsanjani and Khatami entered the presidency buoyed by strong majorities and their policies of economic reform and socio-political liberalisation appeared to command wide support among the Iranian population. Yet both suffered considerable slumps that threatened their second-term electoral mandate and even more dramatic set-backs in terms of popular support by the time they left office. Even now, there is some evidence of a similar phenomenon affecting the presidency of Hassan Rouhani.

The third obstacle to moderation in the Islamic Republic is simply the tendency for events to overtake the best of intentions and the most cleverly designed strategies for advancing change from within the system. Reform cannot take place in a vacuum and the realities of a region in turmoil have repeatedly intruded on, distracted from, subverted and/or overturned the premeditated planning. Political actors are forced to pivot to adapt to developments that they could not have anticipated when they launched their efforts to change.

The end of the Cold War, the Iraqi invasion of Kuwait, the Asian economic crisis, the 9/11 attacks and the military interventions pursued by Washington in their aftermath, the Great Recession, and the emergence of the Islamic State in Iraq and the Levant (ISIL)—each of these developments caught Iran's leadership off guard, and prompted adjustment and redirection. For moderates and reformers, the need to revise their strategies to contend with new circumstances that are often fluctuating and uncertain seems to have detracted from their capacity to advance their initial agendas.

Finally, despite the casual expectation that the resolution of the nuclear impasse and the lifting of multilateral sanctions will strengthen Iranian moderates, this appears to be an assumption based on a fallacy. A careful review of Iran's post-revolutionary history does not offer evidence of a direct correlation between economic growth and/or economic liberalisation and political change, at least not one that plays out in the short term. This apparent disconnect can be explained by a variety of factors: the distortions of price volatility for Iran's resource-dominated exports; the capital intensity of the largest sectors of Iran's economy; the persistence of corruption; the lag time for investment to begin to impact expectations and pocketbooks; and the repression of organised labour and other social groups that might benefit from economic reforms—among others.

The simple conclusion that can be drawn from thirty-seven years of alternating experiments in political moderation and economic reform is that Iran's experience is consistent with the trends observed more widely in the Middle East: economic factors may be relevant to success in facilitating a transition away from authoritarianism, but they do not constitute a precondition nor a panacea for political liberalisation[3].

CHAPTER 2

THE FORCES INFLUENCING IRANIAN POLITICAL LIFE

A confounding political landscape

The tallies of Iran's recent parliamentary elections were confusing. They varied from one news outlet to another. While initially some[4] reported that supporters of President Hassan Rouhani, or the so-called moderate currents of Iranian politics, had won 143 out of the 290 parliamentary seats, others[5] put that number at 122. Statistics aside, mainstream observers had trouble interpreting the results. Most opted to herald the moderates' electoral triumph, despite reporting earlier that nearly all moderates had been barred from running[6]. These discrepancies stem from two inter-related problems: a) the absence of a rigid party system in Iran, which has given rise to a protean factional landscape; and b) an outdated typology that fails to capture real and evolving fissures in Iranian politics. Factional demarcations are less discrete and bounded affiliations than categories among which politicians—who are, at times, backed by more than one political camp—can move over time. Political coalitions form and often dissolve with each election, as factions recombine to improve their electoral fortunes. Lacking a coherent policy platform or membership beyond their founders, they are little more than vehicles for elite blocs, with shifting alliances based on short-term constellations of interests.

Iran's own political vernacular adds to the confusion. The reformist-conservative dichotomy, often used as shorthand to distinguish those who believe in rapid change from those who prefer gradual or no change at all, is no longer relevant. Former President Mahmoud Ahmadinejad, often labelled a staunch conservative, went considerably further than his predecessor, the "reformist" Mohammad Khatami, in transforming executive institutions and reforming the economy, particularly through vast privatisation and ending state subsidies. Some factions that have been identified as "extremist", in fact oppose radical change. Groups that pursue radical reform are often called "moderate" because they espouse a relatively conciliatory foreign policy and fairly liberal social norms. The "moderate" label is also used for certain centrist politicians, such as former President Ali Rafsanjani and incumbent President Rouhani, whose foreign policy is as conciliatory as those of the reformists, but who are more conservative when it comes to social policy.

The February 2016 parliamentary elections, which saw prominent political figures, like the centrist Rouhani (formerly conservative), reformist Khatami, and conservative speaker of Parliament Ali Larijani (formerly ultra-conservative), bundled in the same camp and pitted against so-called hardliners, put the inadequacy of Iran's existing factional classification on full display.

The real battle lines

The central divide among Iranian factions reflects the duality weaved into the Islamic Republic's fabric: an incongruous blend of popular sovereignty and religious authority. Since 1979, a vast chasm has divided Iran's theocrats, who believe that government legitimacy stems from divine providence, from its republicans, who deem popular will a more important source of authority. Under the auspices of the revolution's charismatic founding father, Ayatollah Ruhollah Khomeini, the theocrats managed to purge the proponents of republicanism, who were mostly leftist secular Jacobins. After Khomeini's death in 1989, the theocrats split into two groups: the pragmatists advocating stability and reconstruction after a decade of revolutionary turmoil and war with Iraq, and the radicals who pursued a statist economy and an aggressive foreign policy. Constitutional revisions that bifurcated the political system also led to increasing friction between the office of the new Supreme Leader, Ayatollah Ali Khamenei, and then President Rafsanjani. Tensions boiled over in the 1997 presidential elections, which pitted Rafsanjani's choice, Khatami, against theocrats who sought to concentrate power in Ayatollah Khamenei's office. Khatami won, and the split increasingly pushed Rafsanjani, the grey eminence of the Islamic Republic, towards republicanism.

When Khatami, a pragmatic republican, was unable to weaken the grip of theocratic bodies such as the Guardian Council, popular frustration led to the rise of the radical republicans, who won parliamentary elections in 2000. Their push for rapid socio-political reforms led to a pushback by equally radical currents from the theocratic camp. Between 2004 and 2005, radical theocrats, led by Ahmadinejad, captured the parliament and the presidency. They marginalised and eventually purged radical republicans in the crackdown that ensued the heavily contested 2009 presidential elections. But their rule saw the economy grind to a halt and the country teeter on the brink of a military confrontation during the nuclear crisis. That paved the way for the return of pragmatic republicans, led by Rouhani, in 2013.

The Islamic Republic's governance system, too, reflects its binary nature. Republican features are most prominently represented by the popularly-elected president and unicameral parliament. A variety of theocratic bodies, however, oversee these, foremost the Office of the Supreme Leader, which has the final word on all matters of state. Selecting and theoretically overseeing the leader is the Assembly of Experts, comprised of 88 Islamic jurists. Other tutelary bodies supervise the elected executive and legislature, principally to guard the system's theocratic nature. The most important of these is the Guardian Council, which vets all legislations and candidates for elected offices. Another oversight layer comes in the form of consensus-building and adjudication bodies, like the Expediency Council, which resolve disagreements and arbiters cases in which the legislature is overruled by a Guardian Council veto.

The four quadrants of Iranian politics

A more adequate typology for analysing political groupings is a two-dimensional classification scheme. The first distinguishes different sources of legitimacy. At one end of the spectrum are theocrats, who deem divine providence, based on the principle of *velayat-e faqih* ("guardianship of the Jurist"), the main source of authority in the system. At the opposite end are those for whom legitimacy is not solely conferred by God, but rather stems from popular will. The second axis pits pragmatists who seek to gradually adjust the *status quo* against radicals who seek either a rapid return to the original principles of the revolution or possess strong revisionist inclinations. Taken together, these axes delineate the four following political quadrants.

- *Pragmatic theocrats* believe in rule by divine will, advocate economic liberalisation, espouse conservative Islamic social norms, and see an unavoidable clash of interests between Iran and the West. They are the old guard of the Islamic Republic, dominating the majority of Iran's unelected institutions.
- *Radical theocrats* also believe in divine providence, but they support populist, statist and redistributive economic policies to promote social justice. They also adhere to restrictive Islamic mores and pursue a confrontational foreign policy based on an existential zero-sum battle with the West and on promoting regional hegemony.
- *Pragmatic republicans* emphasise Iran's elected institutions and constitution over divine authority. They advocate a market economy with state-driven industrialisation, support cultural freedoms within Islamic norms, and espouse regional interdependence, interaction with the West, as well as integration into the global economy.
- *Radical republicans* believe most strongly in the people's will, as expressed in elections. They contend that the Supreme Leader's authority ought to be subordinated to the constitution. They promote a free-market economy, have liberal views on social issues, and endorse a cooperative regional policy and moderate foreign policy centered on normalising relations with the West.

The current political landscape is the product of three decades of metamorphosis, punctuated by sharp changes at certain junctures that reconfigured the political map. In the wake of the July 2015 nuclear agreement, many hoped—and some feared—that the twin elections of 2016 for the parliament and the Assembly of Experts could mark another pivotal moment that reshapes the system.

A more republican parliament

The parliamentary poll came at a sensitive time. Following the signing of the nuclear accord (Joint Comprehensive Plan of Action or JCPOA), theocrats feared that Rouhani's foreign policy victory could boost the republicans' electoral fortunes, give them the upper hand in the legislature, and worst of all allow the comeback of radical republicans under their shadow. The opposite outcome could turn the president into a lame-duck for the rest of his term, jeopardising the odds of his re-election in 2017. The removal of sanctions six weeks prior to the elections further raised the stakes, posing a threat to vested interests and questions about priorities—issues over which the parliament can exert authority.

The Guardian Council took it upon itself to prevent an outright republican victory and a return of radical republicans to the fold. Of the record 12,123 candidates for parliament, the Council disqualified nearly 58 per cent in the first round. It barred more than 95 per cent of the radical republican candidates. This prompted a public outcry. Rouhani and Larijani succeeded in persuading the Council to reinstate 1,500 aspirants, of mixed political affiliations, bringing the disqualification rate down to 49 per cent. Yet, lacking well known contenders in some cities and sufficient representation around the country, the republicans were forced to adopt an innovative electoral tactic: publishing a list of their preferred candidates that included not only pragmatic republicans, but also pragmatic theocrats in order to defeat radical theocrats who obstructed Rouhani's agenda.

Their plan worked remarkably well. In some major cities, like Tehran, they performed a clean sweep of all 30 seats allocated to the capital in the first round, held on 26 February 2016. In rural areas and religious centres, like Qom and Mashhad, the theocrats did better. Run-off elections for 68 candidates failing to win more than 25 per cent of the votes in the first round were held on 28 April. With just 26 per cent of incumbency, the election fundamentally changed the complexion of the parliament and shifted the balance of power in favour of the republicans. The final results divided the 290-member legislature between 123 republicans (almost all pragmatists), 80 theocrats (mostly pragmatists, with a few radicals) and 84 independents—with no discernible political affiliation.

From Rouhani's perspective, this is certainly a satisfactory result. The republicans gained political ground and ousted leading radical theocrats. But their ability to gain a workable majority depends on how the independents position themselves. They tend to coalesce into political blocs only after a new parliament convenes. Rouhani could use the power of the purse to draw some of them into a republican bloc, but it is unclear whether he could use them to build an absolute majority. The independents could form their own bloc or split the legislature into blocs of similar weight, thus giving rise to a hung parliament that would slow—rather than facilitate—decision-making, at least on issues over which there is limited elite consensus. Alternatively, the independents could vote on an issue-by-issue basis, most probably throwing their weight behind the republicans on economic policies while siding with the theocrats on socio-political matters.

Even if the next parliament were to come decisively under the republicans' control, Iran's governmental institutions would not necessarily work in harmony. During Khatami's first term in office, both the legislative and executive branches were in the hands of his republican allies, yet their reforms were obstructed by the theocratic-controlled Guardian Council. The succeeding Ahmadinejad theocratic government, on the other hand, was at daggers drawn with a theocratic-controlled parliament for most of its time as a result of factional infighting. Nevertheless, given that the most ardent critics of the JCPOA were ousted, the legislature will likely be more cooperative when it comes to implementing the agreement. This is, however, not the same as delivering a blank cheque to the republicans for advancing Rouhani's agenda. Entrenched interests and diverging viewpoints mean that even the cooperation of this friendlier parliament in implementing Rouhani's economic reforms should not be taken for granted. On almost all major policy decisions, from economic to socio-political issues and relations with the West, the political establishment is deeply divided and these differences will come to the surface. The elections have put more wind in Rouhani's sails, but with partisan shoals awaiting him and the republicans at virtually every other turn, the journey ahead is anything but clear sailing.

An equally theocratic Assembly of Experts

The republicans posed an even greater threat to the Assembly of Experts. If they managed to increase the size of their existing minority (25 slots), led by Rafsanjani, they would have gained greater influence in the selection of Ayatollah Khamenei's successor, which requires a two-thirds majority (59) vote. Failure to select a leader would automatically transfer his powers to a leadership council—an option recently advocated by Rafsanjani and aimed at diluting the Supreme Leader's power and weakening the theocrats. Given these fears, the Guardian Council applied a more stringent filter to the Assembly's aspiring candidates, going as far as disqualifying Hassan Khomeini, a popular grandson of the Islamic Republic's founder and a figure closely aligned with pragmatic republicans. He was one of the 472 candidates—including major clerics and all 16 women candidates—whose credentials the Guardian Council rejected. With a 75 per cent disqualification rate, in six out of Iran's 31 provinces, there was no competition with only a single candidate on the ballot box.

Expectedly, the results did not alter the balance of power in the Assembly: the theocrats still control nearly 73 per cent of the 88-member body. However, radical theocrats suffered a major symbolic defeat in Tehran, where pragmatic republican leaders, Rafsanjani and Rouhani, finished first and third respectively, while two of the three prominent radical theocratic clerics (Ayatollah Mohammad Yazdi and Ayatollah Mohammad Taqi Mesbah Yazdi) were voted out, and the third, the Guardian Council's head, Ayatollah Ahmad Janati, barely secured his reelection bid. Yet the latter went on to win the Assembly's internal election by 51 votes to become its new chairman. His election demonstrated that the theocrats are still very much in control and have no intention of giving more space to Rafsanjani and his republican allies.

The perennial struggle

Rivalry between republican and theocratic factions is neither new nor limited to the 2016 elections. Over the years, control of the presidency and legislature have switched hands between the two camps, but pragmatic theocrats' grip on unelected institutions and their well-honed exclusionary mechanisms to engineer electoral outcomes prevent republican factions from achieving dominance. While radical forces from both camps that have trespassed the system's redlines have been pushed to the fringes of the political system, the theocrats can neither afford to eliminate republicanism—to which many of the system's founding fathers and technocrats adhere—nor sanction a drift in their direction. To maintain stability, the system manages, at times with great difficulty, to accommodate both republican and theocratic elements. The Supreme Leader, who in theory is above the political fray, maintains this precarious balance. His role as the chief arbiter is central to maintaining the system's stability.

> *...pragmatic theocrats' grip on unelected institutions and their well-honed exclusionary mechanisms to engineer electoral outcomes prevent republican factions from achieving dominance.*

The big question is what happens next. The next major test will be the 2017 presidential poll. Parliamentary elections often presage the outcome of the subsequent presidential contests. The results of this year's election have probably increased both the theocrats' concerns and their motivation to block Rouhani and the republicans from securing a second mandate. Sharp differences between the president and the Supreme Leader on economic priorities, representative politics, the rule of law and cultural norms will provide ample ammunition for Rouhani's opponents. For their part, the republicans can hope to count on possible improvement in the electorate's economic well-being in the next few months (albeit not to the level of heightened popular expectations); better coordination and cohesion; and their skillfulness in using modern campaigning tactics to mobilise their constituency.

The outcome of the 2017 election is not only important because it will determine the next occupant of the presidential office in Tehran, but because it will establish which faction will be in control of the executive branch when, potentially, the question of Ayatollah Khamenei's succession arises. Given the Supreme Leader's outsized power, that transition above all else will define the future balance of power between Iran's republicans and theocrats, the political trajectory of Iran's modern theocracy, and by extension its role in the region and relations with the West.

CHAPTER 3

AN EXTRAPOLATIVE EXAMINATION OF HOW THE NEXT SUPREME LEADER MAY BE CHOSEN

In 2014, Iran's second Supreme Leader, Ayatollah Seyed Ali Hosseini Khamenei, underwent surgery for prostate cancer. This sparked a flood of rumours on the future of the Islamic Republic and his position should he not recover. Two years later and after the February 2016 elections, the unease persists: who will become Iran's next Supreme Leader?

The Supreme Leader shapes the direction of the Islamic Republic of Iran. He is the country's leading political figure and possesses wide-ranging powers, including heading Iran's armed forces. He is the arbiter of disputes among different factions in Iran's political elite, a responsibility that has become increasingly onerous in the last few years. He is not the only decisionmaker, but the final one. His role is to unify the different centres of power and bring cohesion to the policy outputs. Preserving his legacy and the survival of the Islamic Republic are Khamenei's main goals.

To date, Iran has only witnessed one succession, which did not proceed according to the clearly defined rules in the constitution. As a result, much like Iranian elections more generally, it is impossible to predict the aftermath of the Supreme Leader's death or the result of the succession process. But a few scenarios can be sketched out.

The appointment procedure and the Assembly of Experts

Article 5 of the Iranian constitution establishes the position of the Supreme Leader, and article 110 outlines his extensive powers. The incumbent receives support from the Supreme Leader's Office and advice from the Expediency Council. According to the constitution, the Supreme Leader must be a high-ranking Shia with the greatest possible knowledge of religious law. In theory, he must be acceptable to the people and understand politics and policy. In reality, he must be acceptable to the many power circles in the Iranian political elite.

The Assembly of Experts is the body that chooses the Supreme Leader and can declare him unfit (although in practice it is unlikely to do that today). The Assembly is a council of 88 members, elected every eight years. The Guardian Council is a 12-member body appointed by the Supreme Leader and tasked with monitoring the religious qualifications of the Assembly of Expert members and parliament. This means that even if the candidates met all the religious requirements, it would not be enough: they must also meet the political criteria of regime authorities.

Historically, the outlined appointment procedure was never used. In 1985, Iran's then Supreme Leader Ayatollah Ruhollah Khomeini appointed Ayatollah Hossein Ali Montazeri as his successor. But Ayatollah Montazeri's support for a democratic *velayat-e-faqih*[7] and his criticisms of the regime led Ayatollah Khomeini to dismiss him.

After Ayatollah Khomeini's death in 1989, *Hojjat-ol Islam* Khamenei emerged as a possible successor, despite lacking the charisma, theological qualifications and support of his predecessor. When the Assembly of Experts appointed Khamenei, the Supreme Leader had to serve as a *marja*[8]. But he did not meet the criterion and had to be reappointed after the Assembly abolished that requirement.

In today's Islamic Republic, the Supreme Leader will be chosen based on his political connections rather than his religious ties and credentials. Multiple centres of power will have to agree on a candidate. Each faction has its own interpretation of *velayat-e-faqih* and competing interests. Like everything else in the country, the selection of the next Supreme Leader will likely be the subject of intense intra-regime negotiations. As a result, much of the process will be conducted behind closed doors. The succession also depends on the circumstances: Ayatollah Khamenei's sudden death would result in a more volatile process, whereas more advance notice would lead to a smoother, better prepared transition.

The Assembly of Experts today

To secure his position, Ayatollah Khamenei weakened the clergy who could question his authority and helped low-ranking clerics gain prominence. He exerted influence over the Assembly of Experts to obtain what he wanted. This weakened the organisation intended to check his power, which begs the question: will the Assembly actually influence the process or merely rubber-stamp a pre-selected candidate?

The February 2016 elections were significant because there is a high probability that today's Assembly will elect the next Supreme Leader. The polls resulted in a more moderate leaning Assembly, with two-thirds of the important hardliners losing their seats, including Ayatollah Taghi Mesbah Yazdi and Ayatollah Mohammad Yazdi, who was chairman of the Assembly until his defeat.

But almost three months after the elections, the Assembly appointed Ayatollah Ahmad Jannati as its chairman. Ayatollah Jannati, 90, is a regime hardliner who received the fewest votes in Tehran and the leader of the Guardian Council. The election of such a figure as chairman of a more moderate Assembly is likely the result of negotiation to appease hardliners and play a long game. However, this does mean that moderates can no longer veto hardline candidates for the next Supreme Leader should the process occur within the next two years, because the chairman of the Assembly presides over the election process.

Potential candidates

Although it is impossible to determine who will be the next Supreme Leader, there are a number of potential candidates in today's Assembly. Ayatollah Shahroudi is the Second Deputy Chairman after May's elections. He was born in Iraq, studied and taught in Najaf and is an influential Shia *marja*. He was the head of Iran's judiciary between 1999 and 2009, and was close to Khomeini. In 2011, he was reportedly appointed by the latter to mediate between the parliament and President Ahmadinejad during a period of intense infighting. He is a conservative but not a radical, has legitimate religious credentials and is close to the Islamic Revolutionary Guard Corps (IRGC). Ayatollah Shahroudi maintains close ties to Iraq[9], which is why Iran was reportedly grooming him to become the next leader of the Shia in that country[10]. In addition, he may not be charismatic and popular enough in Iran.

Ayatollah Ali Rafsanjani, 81, previous chairman of the Assembly, President of Iran and regime insider is another possible candidate for Supreme Leader. But today, he is associated with the reformist camp and disliked by hardliners. He is also known for being corrupt. He won the popular vote for the Assembly, making him the logical candidate for its chairman, but this made him even less popular with hardliners.

Ayatollah Sadeq Ardeshir Larijani, who heads the judiciary, is another potential candidate. He possesses good religious credentials, but remains less experienced than Shahroudi or Rafsanjani. He is, however, very well connected. The Larijani family is at the head of the Iranian state, including his brothers Ali, who was just re-elected as Speaker of Parliament, and served in the IRGC, and Mohammad Javad who is Khamenei's advisor and well connected to the IRGC. Ayatollah Larijani is a radical conservative and a strict follower of Khamenei's position.

> *Today, it would seem that Ayatollah Shahroudi is the most likely contender.*

Khamenei's son, Seyed Mojtaba Khamenei is also in the running. While there are rumours he was being groomed for the position, Mojtaba Khamenei's is very young at 45, with an incomplete religious education. He is linked to the IRGC, heavily involved in many of their economic deals and has had easy access to his father's office, which translates into influence. That being said, appointing him would make it look like a hereditary process and role, which the Islamic Republic wants to avoid.

It is not possible to dismiss the idea that President Rouhani himself could also become the Supreme Leader. He has had a relatively good relationship with the current incumbent, which is part of the reason he was able to close to the nuclear deal, and he won the third most votes in the February 2016 elections. However, President Rouhani's more outspoken stance since the nuclear deal has not won him any favours. The IRGC would likely contest his candidacy, if put forward, because of Rouhani's attempts to minimise the role of the IRGC in the economy in particular.

While these are the candidates that emerge as likely today, the rapid changes within the Islamic Republic make it possible that new individuals will emerge as contenders in the future. Today, it would seem that Ayatollah Shahroudi is the most likely contender.

Today's spoilers

A number of likely scenarios therefore emerge[11]. The next Supreme Leader will likely turn out to be a centrist or similar to Ayatollah Khamenei, perhaps even handpicked by him, fostering the existing political order. A more moderate Supreme Leader, who is more accountable to state institutions and the electorate than Khamenei could also emerge. The Islamic Republic could see the formation of a leadership council that would replace a single leader. While the eventual outcome is unlikely to be as clear cut as these scenarios, they provide a lens through which to estimate what is more or less possible. In addition, there are a number of new factors to consider in the next succession process, including the following.

The IRGC

Ayatollah Khamenei empowered the IRGC to compensate for his own lack of charisma and clerical credentials. In addition, the Iran-Iraq War, decades of sanctions and regional turmoil transformed the IRGC into a political, economic and military powerhouse, with wide-ranging powers and a presence in all sectors of life in Iran. They are loyal to Ayatollah Khamenei, but many are frustrated with the nuclear accord (Joint Comprehensive Plan of Action JCPOA) and feel their interests were side-lined.

> *...the IRGC is by no means a monolithic entity. While some are extreme hardliners, others believe in the benefits of the nuclear deal and a more open Iran.*

The IRGC will want to influence the succession process and ensure the next leader is as loyal to them as they are to him. They will want the next Supreme Leader to safeguard their interests, especially in a post-nuclear deal context. But the IRGC is by no means a monolithic entity. While some are extreme hardliners, others believe in the benefits of the nuclear deal and a more open Iran.

The Islamic Republic's legitimacy

The last succession occurred at the end of the 1980s, when the Islamic Republic was imbued with ideological zeal following eight years of resistance in the Iran-Iraq War and headed by a popular and charismatic Ayatollah Khomeini. Today, the Islamic Republic is tired. The clergy is weakened and divided, while the IRGC is strong. In the past two decades, Ayatollah Khamenei secured his position by building a number of overlapping institutions which he could more easily control. Deep regime intervention in the affairs of the Assembly of Experts inevitably weakened the system as a whole. In addition, this will be the first succession not determined by the father of the Iranian revolution. Ayatollah Khomeini's choice could not be questioned, but Ayatollah Khamenei does not have the same popularity and legitimacy as his predecessor. Instead, he witnessed shifts in his legitimacy following his reaction to key events in Iran's recent history: down after the 2009 crackdown on protestors, but up after President Rouhani's surprise election and the nuclear deal.

Council vs. Supreme Leader

Given the lack of agreement on any issue among different power centres in Iran, the possibility of no immediate succession is real. Article 111 of the Iranian constitution establishes a temporary leadership council if the Supreme Leader cannot fulfil his duties or suddenly dies, with the approval of the Guardian and Expediency Councils. The latter is composed of the serving president, the head of the judiciary, and a jurist from the Guardian Council. This was what Rafsanjani wanted to put in place after Ayatollah Khomeini's death, but the elite would not agree to it. While it is unlikely that today's Assembly of Experts would deem Ayatollah Khamenei unfit to exercise his duties, should his death be sudden, it may have to take over. But how long would it do so? Would it ultimately be willing to give up the responsibility? And what would happen if the religious authorities in Qom no longer stood by the current Supreme Leader position?

Factionalism and divisions

Factionalism characterises the Islamic Republic. If this adds to its dynamic and changing nature, it can also paralyse it. Factionalism has always been a part of Iranian political life, but it has rarely been as pronounced as today. Divisions also exist within factions, including the seemingly unified hardliners. The ultimate goal of all is the survival and continuity of the Islamic Republic of Iran. Various factions have different ways of achieving this. It is conceivable that they could put their individual interests aside and push for a centrist candidate, accepted across the board. Usually, the system seeks compromise at the last minute in order to avoid factional warfare. But today's Islamic Republic is different: it is no longer afraid of such disagreements.

Conclusion

The personality of the next Supreme Leader will determine the direction the country takes. Ayatollah Khamenei and his followers want a leader who will continue his legacy and defend their interests. But the Supreme Leader has traditionally been a balancer between the different factions in Iran. Given the rise in moderation, such a figure should be more of a centrist. The rapid pace of change in Iran makes the factors that would push the decision in one direction today likely different from when the time comes to make a decision after Ayatollah Khamenei's death. Along with the opaque nature of the succession process, this makes determining the aftermath of his departure a guessing game. But "what matters more than the identity or personality of the next Supreme Leader is that he will enter office at the choosing of powerful forces, so he will likely owe the IRGC, the intelligence services, and the judiciary more than they owe him.

In other words, Khamenei's institutional children will be the next leader's institutional elder brothers, protecting him and perhaps controlling him as well[12]".

CHAPTER 4

THE EVOLVING ROLE AND LIMITATIONS OF IRAN'S SECURITY APPARATUS

The security apparatus of the Islamic Republic of Iran—that is the combination of those institutions and organisations that are responsible for internal and external security including matters of national defence and intelligence—differs slightly from that of other authoritarian regimes as it combines revolutionary and state institutions. Hence forces like the army and the police are balanced by ideological units like the Islamic Revolutionary Guard Corps (IRGC), the revolutionary committees and irregular forces (Hizballahis).

The result is a cohabitation of a numerically strong but technologically obsolete conscript army and police force with an overlapping network of intelligence and paramilitary forces. Limited military capacity is buttressed by anti-imperialist revolutionary rhetoric. That is why the United States remains enemy No. 1, notwithstanding the signing of the nuclear agreement (Joint Common Plan of Action, or JCPOA). The present US-Iranian alignment of interests in the region (the stabilisation of Iraq, the fight against the Islamic State in Iraq and the Levant) has not resulted in a strategic reassessment. National security is largely defined as regime security.

As commander-in-chief, the Supreme Leader appoints the higher echelons of military commanders, some of them at the suggestion of the president. Parliamentary oversight of the armed and security forces is ensured as all, ministers including the ministers of defence, intelligence and interior, must be confirmed by parliament. By law, the minister of intelligence must be a cleric; occasionally the Ministry of Interior, too, has been led by a cleric. Political oversight and ideological indoctrination are the responsibilities of the representatives of the Supreme Leader, who are present at all levels and in all ideological and political offices. They are responsible for the obligatory ideological review of all public servants (*gozinesh*). Additionally, the establishment of security offices (*daftar-e herasat*) is mandatory in all private and public organisations and institutions. In military organisations, the protection and intelligence organisations (*daftar/sazeman-e hefazat va ettelaat*) function as an intelligence and counter-intelligence force. In the army, these units exist in addition to the staff positions responsible for military intelligence and security. The

IRGC's protection and intelligence organisation (*sazeman-e hefazat va ettelaat*, or SHE) has developed an organisational and political life of its own. In the Law Enforcement Forces of the Republic of Iran (NAJA), a similar unit exercises the functions of internal audit and state police. Additional surveillance units include the para-state Basij and the irregular Hizballahis. The latter act as a moral police but have proven difficult to control. Since 1992, they are organised under a private umbrella organisation called Ansar-e Hizballah, whose influence the Rouhani government has tried to curb.

The coordination and separation of responsibilities is regulated by a number of laws. The main strategic decisionmaking body is the Higher National Security Council (HNSR), chaired by the president. In it, key ministers and military commanders are represented. Sensitive security policy decisions are taken in the informal "Council of the Heads of the Three Powers" (legislative/head of parliament, executive/president and judicial/head of justice). Matters of internal security are decided on by the State Security Council, headed by the minister of the interior. There are overlapping and competing mandates for the Ministry of Interior, the IRGC, the Ministry of Intelligence and the IRGC's intelligence service.

The full development of the Iranian intelligence services is not yet complete, it is still an amalgam of most departments of the old SAVAK with revolutionary forces. Legally, the Ministry of Intelligence (VAJA) should be the central intelligence agency responsible for internal security and strategic reconnaissance, except in military affairs. The establishment of the ministry in 1984 was to the detriment of the first intelligence unit of the IRGC, which had to transfer its best cadres to the new ministry and was reduced to a mere military intelligence unit during the war. This act laid the foundation for the deep institutional hostility between VAJA and the IRGC, with the latter trying to curtail VAJA's purview in the field of domestic security.

The Army of the Islamic Republic of Iran (AJA) is solely responsible for military defence and has no role in domestic security. AJA was originally divided into three military branches: land, sea and air. In 2009, air defence was separated from the air force and joined up with the IRGC's air defence, and thus a fourth branch was added. The transformation of the 12,000-strong air defence command headquarters (*qarargah*) *Khatamolanbiya* into a military branch underscores the defensive nature of Iran's military doctrine. The armament consists partly of outdated missile systems, but Tehran launched a modernisation programme in 2007 when the Russian Tor-M1 missile system was introduced, which seems now to be complete with the introduction of the S-300 air defence system. The Iranian Air Force could never compensate for war-related losses of material and experienced pilots. Most aircraft is of US origin but Russian systems, including several Mig29 and Sukhoi, have been introduced. The Iranian navy operates in and outside of the Persian Gulf. In cooperation with the missile speedboats of the IRGC's Navy, they prevent the penetration of enemy ships in Iranian territorial waters. Their tactical and military capabilities are not very impressive and their adventurism has often provoked naval incidents.

The merger of the police, gendarmerie and border troops with the revolutionary committees led to the creation of NAJA in 1992. The dissolution of the feared revolutionary committee was welcomed by the population and marks the beginning of the post-revolutionary phase. NAJA's border troops have a strong identity of their own. The borderguard battalions are equipped with SUVs armed with multiple rocket launchers. The worsening of the situation on the eastern border with Pakistan in 2013-2014 led to the involvement of the IRGC.

The IRGC was created through the merger of various Islamist militias loyal to Ayatollah Khomeini. Initially used as a domestic security detail, it became militarised when the IranIraq War broke out in 1980. In 1982, the Basij-e Mostazafin were created as a reserve element. They perform the functions of auxiliary police and ideological mass movement. They get their ideological, military and police training from the IRGC but lead an institutional life of their own. From the outset, the Basij were used as an additional monitoring and control element of the population. They were notorious for their moral or modesty controls (*gasht-e ershad*) and their activities in the universities and schools. Membership at the Basij is associated with numerous privileges and benefits, especially in the field of higher education.

Basij are also active in the cyber sphere today, especially in the realm of surveillance. Actual electronic warfare, however, is still in the hands of the Ministry of Intelligence.

The IRGC's Air Force and Navy were established in 1985. Organised until 2009 into 15 divisions, the IRGC's land forces are now organised into 31 regional commands, all focusing on domestic security. Nowadays, the IRGC comprises five branches: land, air, sea, Basij and Qods. Several special units, such as the anti-terror unit Ansar AlMahdi and the Vali Amr unit responsible for the Supreme Leader's security, are part of the IRGC's land forces. The Qods Force is used to safeguard Iranian interests worldwide, such as in Bosnia and in Lebanon in the 1990s, or in Iraq and Syria since 2010. The Qods suffered heavy losses from 2013 to 2015 and has largely been replaced by special forces from the military, the prestigious *takavor* of which not much is known. The SHE remains independent from the IRGC.

The IRGC oversee the prestigious missile program which is the responsibility of the otherwise less significant Air Force of the Revolutionary Guards. Tehran is capable of producing an unknown number of short-range missiles of the Shahab 1 and 2 types (based on the North Korean SCUD) and has tested a medium-range missile (Shahab 3 / Ghadr 1, North Korean No-Dong). Of major international concerns are the Sajil 1, a two-stage, solid-fuel rocket which could reach Israel and southeastern Europe, as well as the potential for the Sajil to turn into an ICBM program.

CHAPTER 5

THE SAUDI-IRANIAN RIVALRY IN A REGIONAL CONTEXT

Of the myriad fault lines crossing the Middle East, a distinctly operative one at present is the Saudi-Iranian rivalry. Long subtle and indirect, the regional competition between these two regional powerhouses has gained potency, reach and acrimony in recent years. The confrontation, which thrives on deep-seated psychological and political anxieties, is increasingly direct and divisive. It also follows a zero-sum logic.

This struggle for regional primacy—a goal that arguably remains out of reach for both but nevertheless animates the current "Great Game"—feeds off, manipulates and exacerbates every other fault line in the Arab world: state v. society; ethnic nationalism; Islamism v. Arab-style "secularism"; strains of Islamism and jihadism; and the much-touted but often misunderstood and overstated Sunni-Shia divide.

This rivalry is playing out across the Middle East but also spills onto other issues, such as energy policy and courtship of global powers.

The fundamental drivers of the rivalry

With the persistent weakening of Iraq since 1991, and more so since 2003, Saudi Arabia and Iran have unquestionably become the two powerhouses of the Gulf region.

Structural imbalances between the two states make for fraught geopolitics. Iran's population is four times the size of Saudi Arabia; its history and civilisational continuity dwarf those of its neighbours, as do its societal cohesion and level of institutionalisation. Its geographical position gives it depth into South and Central Asia and dominance across the Gulf. To Saudi Arabia's advantage are its massive wealth, regional and global integration, as well as its dense network of regional and international partnerships.

Both countries have unique political systems that are antagonistic to one another. Each has a distinctive, discriminatory model of state-religion organisation. Iran is a theocracy where political power has been submissive to clerical rule since 1979 (*velayet e-faqih*), a model the founders of the Islamic Republic sought to export. The ruling Saud family derives legitimacy and stability from a 250-year old alliance with the puritanical Wahhabi clergy, which dominates important areas such as justice and education and seeks to proselytise abroad.

While Iran and Saudi Arabia are natural rivals, the 1979 Islamic Revolution in Iran has had a qualitative impact on the relationship. Anxious about extremist challenges from without (Iran's stated desire to export its revolution) and within (the rise of the Sunni fundamentalist challenge), the House of Saud reacted by hardening its policies at home and regionally.

The relationship between the two countries alternated between periods of tensions (notably in the 1980s and during the term of Mahmoud Ahmadinejad) and periods of relative détente (notably under the presidencies of Ali Rafsanjani and Mohammed Khatami).

The key faultline in the Middle East

There are several reasons why the Saudi-Iranian rivalry has gained such potency. First, it plays out primarily in the weakest Arab states, where it manipulates rather than creates existing fracture lines. Iran since 1979 in particular has sought to expand its influence in countries where large Shia communities exist and have political and social grievances. In contrast, Saudi Arabia remains a status quo power, preferring to deal with governments or co-opt existing politicians. The weakening and in some cases collapse of Arab states has transformed them into arenas of contestation.

Second, this rivalry instrumentalises and exacerbates sectarianism. Over the past few decades, Iran and Saudi Arabia have both courted a wide array of potential allies in these countries. Iran for example supported Hamas, the Palestinian affiliate of the Muslim Brotherhood, to gain cross-confessional and cross-ethnic appeal. Riyadh has allied itself with non-Islamist leaders and politicians.

This has somewhat changed with the shaking of the Arab state order and the intensification of the rivalry. Both countries have had to reckon with the reality that their most reliable and competent allies were their sectarian ones (for example, Hizballah for Iran). Accordingly, both have become hostage to their sectarian partners and to sectarian strategies. At home, sectarianism has served to mobilise public support and create a sense of urgency and solidarity, thus justifying foreign adventures.

Third, the rivalry is compelling local and regional actors to take sides. Both Iran and Saudi Arabia seek to build alliances and expect of their partners alignment and loyalty. However, the escalation makes such alignment costly and uncomfortable for countries used to hedging, engaged in complex politics at home and often looking for external allies to balance against regional hegemons. Lebanon is an example of a country torn by such dynamics.

Fourth, the rivalry constrains external actors because each country seeks to define the nature of the competition and impose a policy and operational prism on outside powers. Major powers are asked to take sides in this rivalry based on either Saudi Arabia's or Iran's interpretation of current events.

An important irony of the Saudi-Iranian competition is that it is driven not only by the profound differences between the two countries, but also by their similarities. Both countries are sectarian powers at home, discriminating against segments of their population. Embedded discrimination reflects the ideological leanings of the ruling elite, as well as the kinship, or group solidarity, that underpins their political system. Abroad, and as argued above, each instrumentalises sectarianism, though their sectarian behaviour varies significantly depending on need, circumstances, local conditions and other factors.

Each country poses as the foremost Islamic champion, a status on which each bases its claim for regional leadership. Saudi Arabia, home to Islam's holy sites, claims to lead the world's Sunnis (85 per cent of the Muslim population), while Iran asserts that its Islamic Republic has achieved the perfect model for state-religion organisation, hence its desire to export it.

Each country also sees itself as the cornerstone of the Middle Eastern order. Iran seeks to organise an axis of like-minded state and non-state actors from Iran to the Levant and shape the new order, while Saudi Arabia works to enrol Sunni states in a strategy of containment of Iran.

> *...in the highly internationalised arena that is the Middle East, each country also seeks to be the primary interlocutor of external powers.*

By extension, in the highly internationalised arena that is the Middle East, each country also seeks to be the primary interlocutor of external powers. Iran seeks to obtain international recognition of its senior, central status while at the same time demanding the departure of foreign militaries from the region. For its part, Saudi Arabia claims to lead the Arab world, but also seeks to maintain and deepen security ties to major powers.

Arenas of regional competition

It is no surprise that the Saudi-Iranian competition is playing out most intensely in the Levant. It is precisely the highly strategic nature of the Gulf region that constrains the options and behaviours of both countries. The Gulf region is indeed a highly internationalised space, where Western militaries are present and international interests and attention are constant. US military dominance there makes a direct war unwinnable and creates a balance of deterrence that effectively freezes the geopolitical game. Moreover, the costs of a direct conflict would be massive for all sides, while the outcome would be unsatisfactory for all. Additionally, the relative strength, wealth and cohesion of the Gulf states overshadow those of other Arab countries.

For all the current attention devoted to Yemen, the country remains secondary in terms of the regional balance of power. While the future of Yemen is very important for the security of the Arabian Peninsula, the outcome there will not shape regional dynamics. A victory in Yemen, arguably impossible to define, has no carry-over effect.

Therefore, the competition is unfolding in the weak states and divided societies of the Levant (including Iraq). The political and cultural significance of these states, their geographical centrality and proximity to regional powerhouses (namely Egypt, Israel and Turkey) and their societal and political diversity make them core theatres of the dispute. This is particularly the case for Syria, where Iran and Saudi Arabia (as well as other states) have respectively made considerable investments in favour of, and against, the Assad regime since 2011.

A victory in Yemen, arguably impossible to define, has no carry-over effect.

Originally, this competition played out in Lebanon and Palestine, but their complex politics and demographics prevented an all-out victory for either side. The thinking since 2011 is that victory in Syria would carry over into Lebanon and Palestine. In contrast, Iraq is an arena where Saudi investment has been low. Since 2003, Riyadh, which opposed the US invasion, mostly sought to isolate or ignore the new Iraqi political realities and let the US manage the politics in Baghdad. Iran's growing influence in Iraq came as no surprise to the kingdom, but it calculated that it had few instruments to contain and counter it.

CHAPTER 6

IRAN: STUCK UNDER A LOW CEILING IN IRAQ, CUTTING ITS LOSSES IN SYRIA

According to many of its critics, the Islamic Republic of Iran has increased its influence in post-Saddam Hussein Iraq and in Syria since 2011. In a narrow sense, this is not inaccurate: Iran has made gains in both countries. Yet a comprehensive analysis of Iran's choices leads to a more nuanced assessment: the ceiling for Iranian success in Iraq is low, while the best that Iran can hope for in Syria is to cut its losses, not make net gains.

This is because there is an inherent tension in Iran's policies in Iraq and Syria: for Tehran to achieve influence in either country, it needs them to be weak. At the same time, instability and weak governments—especially in Iraq—negatively affect Iran's security. Conversely, a strengthening Iraq and a stable post-conflict Syria would be positive for Iran's security but less permeable to Iranian influence. The optimal policy for Iran is therefore one that pursues a difficult balance between these contradictory incentives and pressures. This, however, comes with significant costs; it is a lesser of two evils rather than an absolute ideal.

Iran in Iraq: A low ceiling for success

In a weak Iraq, Iran can build its influence by penetrating a fragmented political system in which local actors need and seek external support. At some point, the condition—state weakness—that allows Iran to maximise its influence brings diminishing and eventually negative returns as instability in its neighbour increasingly threatens Iran. At the extreme end of the range of scenarios, a collapsed Iraq—a distinct possibility in recent years—represents a nightmare scenario. This affects Iran through a variety of means: violence can spill over across the long border; it creates space for anti-Iran groups such as the Islamic State in Iraq and the Levant (ISIL); and it pushes the US to extend its military presence.

Conversely, the opposite outcome—rising Iraqi state strength—would gradually lessen Iran's insecurity, but also its influence; at some point, the returns again become negative. A strong Iraq is unlikely to be an ally but would rather act as a check on Iranian power and as a competitor. A strong Iraq is bound to be led by nationalist leaders who, even if they are Shia, are unlikely to tolerate high levels of Iranian penetration; resentment of Iranian influence is already widespread. As long as Iraq is weak and its politics divided, this sentiment cannot be channelled; in a strengthening Iraq, however, it will likely translate into growing nationalist opposition to Iranian influence in Iraq, and eventually to Iranian regional ambitions.

Iran's ideal is therefore to strike a balance between the costs and benefits of its choices. Researcher Mohammad Ali Shabani refers to this as "qualified stability", while others use the label of "managed chaos". Both cases express Iran's interest in a weak and unstable but minimally functioning Iraq which it can penetrate and where it can shape outcomes, but not unstable to the point that it seriously threatens its own security.

Concretely, Iran translates these contradictory pressures into its preference for a democratic and decentralised Iraq, believing correctly that this is the optimal combination to prevent the emergence of an Iraq that is too strong or too weak, the two extremes it wants to avoid. These interests push Iran to use contradictory tools. It backs the central government and democratisation, but at the same time it supports non-state groups contesting the state's monopoly on violence. It contributes to instability through its support for violent groups, while also positioning itself as the indispensable actor able to mediate disputes.

It is likely that Iraq will continue to lend itself to these objectives for the foreseeable future. The most likely scenario in the short to medium term is for the situation to remain more or less the same, with a Sunni insurgency contesting the central government in the west, de facto Kurdish autonomy in the north, and continued bickering among Shia factions. In this fragmented scene, Iran will continue to provide support to dependent clients.

...Iran is locked into this uncomfortable status quo.

Iran has been adept at calibrating the use of its many tools, but it cannot avoid the contradictions inherent to its Iraq policy. More influence in a weak Iraq means less security; more security as Iraq becomes stronger means less influence and raises the risk of the return of an ambitious Iraq. In this sense, muddling along is the optimal outcome. This is the low ceiling for Iran's ability to achieve success in Iraq: gains inevitably come with important costs, and even the optimal outcome is far from ideal. In a way, Iran is locked into this uncomfortable status quo. Significant changes are unlikely to be positive: movement in either direction—more instability or more stability—would likely tilt the cost-benefit balance towards greater costs. There is, moreover, no indication that Iran has a plan, let alone the capability, to break out of this dilemma.

In Syria: Cutting its Losses

The relationship with Syria provides Iran with a platform to resupply Hizballah and, more broadly, to pressure Israel and project influence in the Levant. Hizballah, in turn, facilitates Iran's ties with groups such as Palestinian Islamic Jihad and Yemen's Houthis. These ties are essential pillars of Iran's deterrence: they allow it to signal that an attack by Israel or the US could lead to retaliation through these groups. The onset of war in Syria therefore represents a major source of anxiety, as the fall of the Assad regime would be one of the most serious geopolitical blows to the Islamic Republic.

Iran also opposes post-conflict Syria becoming dominated by a Sunni nationalist or Islamist regime that would adopt an anti-Iran stance. Most fundamentally, as Mohsen Milani has argued, Iran's objective is to preserve "Assadism", a regime maintaining the partnership with Iran, ideally but not necessarily with Bashar al-Assad at its head. In the meantime, the extension of the war, with Assad in control of "useful Syria"—airstrips around Damascus and roads into Lebanon, main cities along the coast, and the Alawite heartland—serves Iran's interests better than a transition eliminating part or all of Assadism. Iran will not admit to this, at least not before serious negotiations on post-conflict Syria, as Assad's fate is a valuable bargaining chip. At the same time, this is easier said than done: Assad will resist any deal calling for his departure, while no clear alternative to Assad has emerged.

Iran's approach to the war in Syria differs in some respects from its approach to Iraq. The fall of Assad would be a major blow, reduce Iran's influence in the Levant and weaken its deterrent. Nevertheless, the impact on Iran's security would be less negative than worst-case scenarios in Iraq: instability in Syria cannot directly spill over into Iran, while an aggressive Syria would be a competitor but not a direct threat. That is why Iran's actions in Syria are driven more by opportunity than threat, the opposite of its approach to Iraq.

What is the balance sheet of Iran's policy in Syria since 2011? In terms of gains, most notable is its increased influence: Iran has deeply penetrated Syria. Its officers are embedded at every level in the Syrian military, while it has also deeply penetrated the Syrian war economy. How much leverage does this buy Iran? Assad needs support, but he has been deft at preventing this dependence from making him a puppet of Iran or Russia. He recognises that Tehran and Moscow need him and he appears convinced that they will not reduce more than marginally their support when he does not heed their requests. Second, Hizballah is gaining tremendous fighting experience in Syria and has received advanced weaponry from Iran and Syria since 2011. Third, the consolidation of the National Defence Forces (NDF, a pro-Assad militia trained and equipped by Iran) also brings long-term gains. Whatever the outcome of the war, the NDF is most likely to remain a vehicle for Tehran to protect some of its interests. To institutionalise its long-term influence, Iran could replicate the Hizballah model and encourage the NDF to provide social services and form a political party.

> *...Iran's actions in Syria are driven more by opportunity than threat, the opposite of its approach to Iraq.*

Despite these gains, Iran is suffering mounting losses. Most basically, Assad will not regain all of Syria militarily; even if he survives, he will be significantly weakened and will have to deal with a government of national unity and continuing insurgencies by ISIL, AlQaeda, as well as the Kurds. As such, the war weakens Iran's ability to project influence in the Levant and weakens its deterrent.

Iran has also suffered damage to one of its most valuable partnerships. When Syria spiralled into civil war, Hamas sided with the opposition and therefore against its Iranian and Syrian patrons, prompting Iran to cut its support. Iran's remaining partner in the Palestinian Territories is Islamic Jihad, a smaller group mostly focused on violent militancy and less on socio-political activities. As a result, its ability to pressure Israel is shallower and narrower.

The war has also been costly for Hizballah. It has suffered hundreds of deaths in Syria, including senior figures. In the worst-case scenarios featuring the end of Assadism, moreover, resupplying Hizballah would become very difficult. Using the maritime route would be risky: Israel has a strong naval presence in the eastern Mediterranean, while the US-led coalition has a strong presence along the path from Iran's ports to Lebanon.

Growing Russian influence in Syria benefits Iran, but Russian gains also partly come at the expense of Iranian influence in Damascus. Down the road, there is scope for tension as both Moscow and Tehran seek to position themselves as the dominant external player in Syria. Iran's vision of a fragmented Syria in which pro-Iranian actors maintain autonomous power centres, is likely to clash with Russia's preference for a strong central government.

The Islamic Republic has tried since 1979 to position itself as the vanguard of resistance against US and Israeli policies. Its ability to transcend its Persian and Shia identity has always been more rhetorical than real. Nevertheless, Iran does enjoy support among Arabs and Muslims abroad, especially in times of crisis. Yet Iran's ability to leverage its soft power is being damaged by its propping up of a regime trying to crush a mostly Sunni opposition. This also damages its narrative of resistance, since Iran and Hizballah are now mostly focused on assuring the survival of the Assad regime and not on opposing Israel.

Finally, Iran's support for Assad carried heavy financial costs. Numbers vary according to the source, but amount to many billions of dollars per year. For an economy under strain, this is a major commitment.

It is true that Iran's population has not poured into the streets to decry this. Yet as popular frustration mounts because of unfulfilled expectations of economic growth following the nuclear deal, this could become an additional, albeit secondary, concern for Tehran.

The best scenario for Iran is for the Assad regime to survive. But even if it does, it would be weakened. It would protect core Iranian interests, but would not return to the ally it was before 2011. This is, de facto, the scenario that Iran faces for the foreseeable future, as the war is unlikely to end for many years. The second best scenario is "Assadism without Assad". But this scenario would be more negative than the first. Such a post-war Syrian regime would protect some core Iranian interests, but it would be weaker and more divided and would face ongoing insurgencies. The third scenario is the worst case, the fall of Assad and Assadism, which would lead to major losses. In sum, the best that Iran can aim for in Syria is to cut its losses, to try to protect what it has and to limit future costs.

Does the rise of ISIL change this assessment?

The emergence of ISIL has been a double-edged sword: it has created additional opportunities for Iran, but it has also increased its insecurity. It has thus reinforced existing dynamics: gains are inevitably accompanied by current or future costs.

The rise of ISIL in 2014 generated opportunities for Iran. In Iraq, it rapidly increased its support for Shia militias, the Iraqi military and Kurdish groups. Tehran, for example, reportedly sent drones and started delivering military equipment only days after the fall of Mosul. It also started delivering weapons to Iraqi Kurdish militias long before the US-led coalition launched its own train and equip program for the Peshmerga.

ISIL does not pose a direct threat to Iran. Even though it came to within a few dozen kilometres of the Iranian border in 2014, it is not strong enough to mount sustained incursions inside Iran, nor has it developed important smuggling routes through Iranian territory. Iran has also avoided the refugee flows that affect other countries in the region. Tehran itself reportedly assesses that the risk of a threatening ISIL presence within Iran is limited. The potential for ISIL penetration exists in theory: Baluch areas in the southeast share a border with Pakistan, while Kurdish areas in the northwest share a border with Iraq. Both regions include a disenchanted Sunni minority, existing criminal and insurgent groups well connected in Iraq and Pakistan, and access to weapons.

Despite this limited internal threat, the rise of ISIL comes at significant cost to Iran. It has raised, again, the risk of the collapse of Iraq. A de facto or de jure Sunni state in a broken Iraq would likely hold a hostile relationship with Iran; if it were not ruled by extremists, it would likely be allied to Saudi Arabia. Even if worst-case scenarios are avoided, the emergence of ISIL highlights how weak Iran's Iraqi allies are. It has also led to the return of the US military in Iraq.

> *...the emergence of ISIL highlights how weak Iran's Iraqi allies are. It has also led to the return of the US military in Iraq.*

Iran's main response has been to increase its support for Shia militias. Though this allows it to gain influence, it comes at a growing cost. It feeds ISIL's sectarian narrative, giving it a powerful recruitment tool. Iran's support for Shia militias (and for Assad) also increases resentment among Iraqi and other Arab Sunnis, damaging the Islamic Republic's soft power.

Does the nuclear deal change this assessment?

According to critics of the nuclear deal, one of its flaws is that the post-sanctions windfall allows Iran to behave more assertively by increasing its support for Assad, Hizballah, pro-Assad militias in Syria, as well as Shia militias in Iraq. This is exaggerated.

The windfall, first, has been limited and is unlikely to grow rapidly. Many unilateral US sanctions remain in place, creating obstacles for European and other banks and making them reluctant to deal with Iranian banks. Sustainable economic growth, moreover, also requires economic reform, which has not materialised so far. As long as corruption, a harsh climate for foreign investment, a bloated bureaucracy, and the concentration of wealth with regimefriendly entities remain, prospects for growth stay far below their potential. As a result, even though estimates of pre-deal frozen Iranian assets ranged between USD 50 billion and USD 150 billion, by mid-2016 Iran had only recovered an amount in the low billions.

Second, the primary motivation behind the regime's decision to pursue the nuclear agreement was the mounting economic difficulties the country faced. It is therefore likely that most economic benefits (limited though they are) will go towards domestic economic needs.

Third, there is no clear pattern between the state of Iran's finances and its support for militant groups. Iran was flush with cash when oil prices were high from 2005 to 2010; though these years were marked by active Iranian involvement throughout the region, access to cash was at most a small driving factor behind this assertiveness. Similarly, there is no indication that as Iran became increasingly strangulated by sanctions after 2010, it reduced its support for partner groups as a result.

Fourth, Sunni Arab states are increasingly balancing against Iran. They have accepted that the nuclear deal is now a reality but want more assertively to oppose Iran regionally. In this context, Saudi Arabia has encouraged other Arab states to join it in opposing Iran in Syria, Yemen and elsewhere. Riyadh has notably succeeded in breaking the longstanding partnership between Iran and Sudan, convincing (or rather, bribing) Sudan to join the campaign against the Houthis in Yemen.

The bottom line is that post-deal Iran is unlikely to increase significantly its investments in Iraq and Syria, certainly not enough to tilt the balance of forces in either country more than marginally. It is not benefiting from a massive post-sanctions windfall, and to the extent it receives additional resources, it is likely to invest most of them in the Iranian economy.

Conclusion

Iran is most influential in failed or failing states; yet even in those, it faces major constraints. Its gains are costly; its security is precarious. This shows the limits of Iran's influence: Iraq and Syria are crucial cases, as these are the countries (with Lebanon) where Tehran invests the most and where the environment is most permeable—and yet even there it achieves only limited success.

CHAPTER 7

SUSTAINING THE JCPOA: IRANIAN THREATS, CHALLENGES AND CALCULATIONS

Iran, the P5+1[13] and the International Atomic Energy Agency (IAEA) have each taken a number of steps to implement the Joint Comprehensive Plan of Action (JCPOA) since July 2015. Iran has scaled back key elements of its sensitive nuclear activities, granted more access to the IAEA to assure the international community that nuclear material is not being diverted from peaceful use, and provided more information about its past nuclear activities to allow the IAEA to clarify the Possible Military Dimensions (PMD) and nature of its past weapon-related activities. The P5+1 for its part has started to lift sanctions and grant Iran access to its frozen assets abroad. However, this process and its impact are disputed: a key challenge in the implementation process lies in Iran's ability to feel the effects of sanctions relief, rather than only witness sanctions being lifted.

> *...a key challenge in the implementation process lies in Iran's ability to feel the effects of sanctions relief, rather than only witness sanctions being lifted.*

In the United States, some believe that Washington does not have an obligation to facilitate Iran's reintegration into the world economy, while others contend that the sustainability of the JCPOA and the future of US-Iran and West-Iran relations are contingent upon the country being able to rebuild its economy[14]. The IAEA for its part has produced the PMD report, shedding light on Tehran's past activities. The report divides Iranian nuclear activities into three key timeframes, which reflect the progression of Iran's nuclear planning since 2002, when the Iranian nuclear file was revealed:

1. Pre-2003: Iran had a consolidated nuclear weapons program;
2. 2003-2009: Iran conducted some weapon-related research and development; and
3. Since 2009: No indication of a weapons program.

While the report has been controversial in the United States, it does provide invaluable insight into Iran's nuclear ambitions and thinking, and confirms the US intelligence community's findings on the subject.

The IAEA has also started to produce progress reports on the implementation of the JCPOA, confirming Iranian compliance with it so far. This paper assesses Iran's nuclear thinking in the post-JCPOA era, before discussing the potential challenges to the JCPOA and its implementation, which could alter Tehran's current nuclear policy.

Nuclear weapons in Iran's security calculations following the JCPOA

The PMD report confirms the UN intelligence community's assessment that there is no indication of Iran pursuing a nuclear weapon since 2009. Prior to the JCPOA, the US intelligence community had assessed that, while Tehran had the scientific, technical, and industrial capabilities to build a nuclear weapon, it had not made the political decision to pursue a nuclear weapon[15]. The PMD report does provide more information about Iran's nuclear pursuits, depicting a clearer picture of Iran's weapon-related activities. Prior to 2009, Iran had adopted a policy of hedging, one similar to that pursued by the Shah when he initiated the nuclear program as part of the Atoms for Peace initiative in the 1950s. In other words, while the country pursued a nuclear energy program for the legitimate reasons it presented to the international community (for use in medical, industrial, research, power and other peaceful areas), it also conducted research and development on weaponisation.

Today, with the JCPOA, it is much more difficult for Tehran to continue this policy of hedging for the duration of the JCPOA. It is unclear and difficult to predict what Iran will do after the deal. If the JCPOA is implemented adequately, Iran's activities will be limited to those allowed under the NPT, declared in accordance with its Safeguards Agreement and the Additional Protocol, and with the terms of the JCPOA. Moreover, the implementation process will be crucial in determining the future of the Iranian nuclear program and Tehran's nuclear thinking: if it feels the effects of the political, economic, and nuclear benefits of the JCPOA, the Iranian leadership will be more likely to continue to comply with international obligations. In other words, if Tehran is able to continue its nuclear program, and reintegrate into the world political and economic stage, it will be more likely to continue complying with the terms of the JCPOA. However, if Iran does not receive the sanctions relief it bargained for, or sees itself unable to utilise the procurement channel, it may resume activities relating to hedging by either cheating or reneging on the pledges it made in the JCPOA.

Challenges to JCPOA implementation

Challenges to the JCPOA from Iran are likely to stem from three key areas: defence-related activities, which do not directly violate the JCPOA but challenge it; Iran's regional activities; and the increasingly clear perception in Iran that the country received the shorter end of the stick from the JCPOA.

Defence-related activities

Iran is not likely to test directly the JCPOA if the status quo persists. In other words, Iran is not likely to violate directly the terms of the JCPOA by resuming prohibited nuclear activities or reversing the measures taken as part of the JCPOA. Instead, the country is likely to continue, and potentially even increase, its non-nuclear activities. These non-nuclear activities pose challenges for the JCPOA, and create discomfort in the West, particularly the United States, and in the Middle East, especially Israel and the Gulf Cooperation Council (GCC) members. These activities include ballistic missile tests, cyber activities (including, cyberattacks and cyberespionage), and the development of the space program. These activities are mainly led by the Islamic Revolutionary Guard Corps (IRGC), and undertaken for a number of reasons. First, they aim to compensate for what many in the IRGC and other hardliners in Iran perceive as excessive concessions in the deal. As such, they aim to appease domestic critics of the latter and Rouhani's security and foreign policies, which are viewed as too soft. Second, these activities are a way for the IRGC to increase the country's material power, while also projecting power, and showing adversaries, such as the United States, Israel and Saudi Arabia, that Iran remains a force to be reckoned with and can push boundaries.

Regional activities

Iran's regional activities have long been a source of concern to its neighbours and Western powers, particularly the United States, which has a network of allies and interests in the Middle East. However, since the 2003 US intervention in Iraq and the Arab Spring, the GCC views Iran as its main adversary and the gravest threat to its security and interests. Today, this threat surpasses that represented by Israel, and Iran has replaced the traditional Arab foe, Israel, in the GCC psyche[16]. Iranian "expansion" and "influence" in the region, and "interference with Arab affairs" are a key concern for the GCC. The United States also sees an emboldened Iran as a key challenge to its national security and interests in the region, but also increasingly recognises the potential areas for collaboration (particularly in Iraq and Afghanistan) in a regional environment where Tehran has more influence, while the GCC states' interests are not necessarily aligned with its own. This in turn further worries the GCC[17]. Iran for its part believes that it needs a network of proxy groups and other allies to ensure its security, and that unless it maintains a presence and influence in various parts of the Middle East, where the central authorities have either collapsed or become so weak that they are on the verge of collapse, it will have to fight various threats at home[18]. Consequently, two challenges stem from Iran's regional influence. First, some of these activities directly or indirectly undermine or represent a threat to US interests. Second, what is viewed as Iran's increased presence in the region, along with its potential collaboration with the United States, make some GCC states apprehensive.

Iran's regional activities and the situation in Syria, Iraq, Yemen, Lebanon and Afghanistan were not up for discussion during the nuclear negotiations. The United States and Iran in particular did discuss regional issues on the margin of the talks (despite denying it publicly), but Tehran's regional activities and support for terrorist groups were outside the scope of the JCPOA. Yet, these challenges can affect the implementation of the deal. Indeed, as Iran continues its regional involvement, the United States is under increasing pressure to respond (both for domestic reasons and due to the interests and concerns of its allies). If this response results in more sanctions, it will create more barriers to Iran feeling the benefits of sanctions relief despite sanctions being lifted, which will in turn lead Iran to become increasingly disillusioned with the JCPOA. It is important also to note that while much of Washington's internal discussion since the JCPOA has focused on how to reassure GCC allies, there is no clear indication that any measure the United States would be able or willing to take would help alleviate these concerns[19]. Hence, while sanctions relating to Iran's regional activities will certainly have an impact on the implementation of the JCPOA, they are unlikely to reassure the concerned GCC states. This may, in fact, be in conflict with most of the GCC states' financial interests, which are to increase economic ties and trade with Iran.

Economic recovery

The Iranian optimism of a post-sanctions era, bringing about economic recovery and paving the way for Iran's reintegration into the world economy and global market, has almost entirely dissipated, leaving in its place pressing concerns. If Iran fails to receive the economic recovery it bargained for, it will be less likely to sustain the JCPOA and may contemplate resuming its noncompliance. Two categories of challenges exist in the process of granting Iran sanctions relief. First, some of these challenges are external to Iran and stem from US domestic politics, the lack of clarity from key US institutions, and the remaining sanctions. Second, some of these challenges stem from Tehran's own domestic politics and economy, including the Revolutionary Guards' presence in most important sectors of the economy, corruption and mismanagement, as well as lack of political continuity. These challenges continue to deter businesses from investing in Iran. In spring 2016, the West made attempts to reassure investors and encourage them to go to Iran. For its part, Iran is aware of the domestic and structural challenges and is taking steps to address them[20]. This is critical to the country's ability to attract investors and businesses, as these groups will return to Iran only as the domestic environment becomes more conducive to investment with the continued implementation of the JCPOA.

While various blocs in Iran have different views of the nuclear deal, they virtually all agree that more foreign investment and trade are positive. But hardliners, in particular Supreme Leader Khamenei, believe they have been proven right that sanctions would not be removed, more sanctions would be imposed, and that the United States would create more obstacles in the way of Iran's political and economic pursuits. If the status quo persists, the hardliners stand to benefit from the lack of progress on sanctions relief, and will have more tools at their disposal to undermine Rouhani in 2017.

CHAPTER 8

IRAN-RUSSIA RELATIONS: CURRENT STATE AND POTENTIAL EVOLUTION

Iran and Russia currently share several interests. These include their leaders' shared antipathy towards the West, fear of the rise of a democratic opposition against them, fear of Sunni jihadism, and support for the Assad regime in Syria. Moreover, Tehran not only buys weapons from Moscow, but Russia has finished one nuclear reactor for Iran and there are plans for it to build others.

There have, however, also been—and continue to be—several important differences and disagreements between Tehran and Moscow. These include: continuing Iranian resentment over the loss of Iranian territory to the Tsarist empire in the 19th century; Tsarist and Soviet interventions in Iran during the 20th century; Soviet support for secessionism in Iran's northwest just after World War I and World War II; as well as Soviet support for Saddam Hussein during the 1980-1988 Iran-Iraq war.

Since the break-up of the USSR in 1991, Iran and Russia (as well as other littoral states) have been unable to agree upon a formula for delimiting their maritime borders in the Caspian Sea as well as dividing the mineral resources beneath it. The old Soviet-Iranian maritime border gave Iran only an 11 per cent share of the Caspian. After the fall of the USSR and the emergence of three more Caspian littoral states (Azerbaijan, Kazakhstan and Turkmenistan), in addition to Russia and Iran, Moscow proposed dividing the Caspian along a "modified median line" giving each littoral state roughly the same percentage of the Caspian as its share of the coastline. This formula would result in Iran having a 13 per cent share of the Caspian. Tehran, though, has insisted that the Caspian be divided equally, and that each littoral state receive a 20 per cent share. Iran engaged in gunboat diplomacy over this issue in 2001 while Moscow did so in 2002. Negotiations over this issue have occurred since then, but an agreement has not yet been reached.

Tehran is also unhappy that despite Moscow's profession of friendship towards Iran, Russia is also seeking improved ties with Iranian adversaries: the Arab Gulf states and Israel. Even areas of joint cooperation have proved contentious: Moscow has delayed or cancelled arms sales to Iran at the West's behest, took an inordinate amount of time to complete the nuclear reactor at Bushehr and appears to have different priorities than Tehran regarding the ongoing negotiations for a peace settlement in Syria. Most recently, while Moscow has joined Riyadh in calling for an oil production freeze, Tehran has pointedly refused and insists that Iran will increase production (which contributes to lower prices) instead.

Thus, while there is an important degree of cooperation between Iran and Russia, there are also important differences between them that serve to limit just how much the two sides cooperate. Further, their common interests have not been strong enough to enable them to overcome their differences. Neither has proved willing to give up much of anything for the sake of improved ties to the other. On the other hand, their differences have not been great enough to prevent them from cooperating on issues of common concern either. Understanding the strengths and weaknesses of the Iran-Russia relationship requires an understanding of how each side views the other.

How Iran views Russia

Iranian and Russian leaders share a deep-seated antipathy towards the West in general and the US in particular. But the Iranian leadership, as well as public opinion, has a generally negative view of Russia due both to Iran's many negative experiences with Russia in the past and low expectations about Moscow's reliability in fulfilling agreements it has reached with Tehran now. Yet while the top Iranian leadership shares this negative image of Russia, it nevertheless has found cooperation with Russia useful in several respects. Although they would have preferred that Russia had vetoed them outright, Iranian leaders value Russia for acting to delay and water down economic sanctions that the West had urged the UN Security Council to impose on Iran over the nuclear issue. Although Tehran has been frustrated over Russian unreliability as an arms supplier and the delays in completing the Bushehr nuclear reactor, Iranian leaders value Moscow for delivering these goods at all when the West would not. Iranian leaders also see the Putin regime in particular as an ally against what they both see as Western attempts to promote democratisation.

Further, Iranian leaders value Moscow for both its strong support to, as well as intervention in support of, the Assad regime without which Tehran may not have been able to prevent its replacement by a Sunni Arab regime hostile to Iran.

Despite this, Iranian leaders are well aware of the limits to partnering with Russia. There is a strong sense in Iran that what Moscow really wants is to achieve some sort of modus vivendi with the United States and the West, and that Moscow always stands ready to stop supporting Iran if it can get the right price for doing so from Washington in particular. Even if Russia-US differences prevent what Tehran regards as this worst-case scenario, Iranian leaders are well aware that Moscow and Tehran are competitors in the oil and gas markets. Further, Russia (especially as a result of Western sanctions and low oil prices) simply does not have anywhere near the same ability to invest in Iran that the West, China or other dynamic Asian states do. An economically declining Russia only provides limited opportunities for Iranian exports, and besides arms and nuclear reactors, there is not all that much that Tehran wants to buy from Russia. While Tehran may be confident that Moscow will not dump Iran in exchange for improved relations with the Arab Gulf states or Israel, Moscow's cooperation with the former is annoying and with the latter is embarrassing to Tehran.

How Russia views Iran

Moscow has greatly valued Tehran's steadfast opposition to US foreign policy. Since Moscow has sometimes cooperated with Washington while Tehran has generally not, this has actually allowed Moscow to be viewed as a partner by Washington in dealing with Iran. Further, direct US economic sanctions on Iran, along with Washington pressuring its Western allies to limit the extent of their trade with Tehran, have benefited Moscow substantially. Not only has US blockage of Western investment in the Iranian petroleum sector limited Iranian output (thus benefiting other petroleum exporters such as Russia), it has also prevented Western investment in pipelines that could transport Caspian Basin oil and gas through Iran to the world market, thus artificially increasing the reliance of these countries on export routes via Russia.

Indeed, Moscow's main worry about Iran is that the enmity between Tehran and Washington will end, and Tehran will then have little need for Russia. Although this has seemed like a low probability event ever since the 1979 Iranian Revolution, Moscow feared that the Obama administration's efforts to reach a nuclear accord with Tehran would lead to a closer rapprochement between Iran and the United States. Russian leaders understood that, if Moscow had attempted to block an agreement that Washington and Tehran wanted to make, the latter would have proceeded without Moscow. Fortunately for Moscow, though, Supreme Leader Ayatollah Khamenei's opposition to a broader rapprochement with the US as well as Tehran's continued strong support for the Assad regime and hostility towards both Israel and the Arab Gulf states have made the prospects of further improvement in Washington-Tehran ties highly unlikely at present.

Yet even in the absence of improved Iran-US ties, there is much about Iranian policy that frustrates Moscow. Hostile relations between Washington and Tehran should have, in Moscow's view, resulted in Iran becoming both dependent on and deferential to Russia. Tehran, though, has not only not shown gratitude to Moscow for what it has done for it, but has complained about how Moscow has not done more instead. Russian leaders are also frustrated about how Iran persists in refusing Moscow's proposals for resolving the Caspian Sea issue. Currently, Moscow sees Tehran as out of alignment with it on several issues: at a time when the Russian economy is becoming more isolated from the West's (due both to Western sanctions and Moscow's response to them), Iran is improving its economic ties to the West.

Moreover, instead of joining Moscow's efforts to isolate Turkey after the November 2015 shootdown of a Russian military aircraft by Turkish forces, Tehran has worked to improve relations with Ankara instead. Although Russia moved to severely cut back trade ties with Turkey after this incident, Iran and Turkey announced plans to increase theirs. In addition, Tehran, like Ankara, has taken a dim view of Russian support for Kurdish forces in Syria (Iran, like Turkey, has a substantial Kurdish population inside its borders which it does not want to secede).

Future prospects

Despite their ongoing difficulties, Iran-Russia ties may now be stronger than if there is either a dramatic improvement or deterioration in Iran-US relations. If, somehow, Iran's ties to the West improve, Tehran will simply have less need for Russia. While Iran may not join the US in opposing Russia, it will certainly not join Russia in opposing the US. Further, just as Russian petroleum exports have benefited from Iran-US hostility, Iranian petroleum exports could benefit from Russian-Western hostility if this grows worse.

On the other hand, if Iran-US hostility returns to the point where open conflict between them is possible, it is doubtful that Moscow will come to Iran's defence. Russian President Vladimir Putin may take advantage of Iran-US hostility to pursue expansionist aims in the former Soviet space, but with Russian forces already involved in eastern Ukraine, Syria and the North Caucasus, he may not wish to risk becoming overextended through involvement in yet another conflict. Just as in the past, Iranian-Western hostility may not result in increased Iranian trade with Russia, but with China instead.

Similarly, Iran-Russia ties may deteriorate as a result of either positive or negative political change inside Iran. The rise of democratic forces inside Iran would lead to greater cooperation between Iran and the West. The rise of more strongly Shia Islamist forces in Iran, though, may reaffirm Iranian revolutionary leader Ayatollah Khomeini's view of seeing both East and West as "satans". One possible source of tension might be Syria, with Russia more willing to reach a compromise with Sunni Arabs and Kurds there, while Iran insists on supporting the Shia-affiliated Alawites who form the basis of the Assad regime. Further, a more Shia Islamist Iran will be far less tolerant of Moscow's close ties to Israel and the Gulf Arabs than Tehran is now.

In addition, the rise of China and India, as well as the growing rivalry between them, may have a greater impact on the international relations of Iran and other states in the region than anything Russia does. Indeed, if China and India decide to compete with each other through providing assistance to, as well as buying petroleum from Iran, Russian influence in Tehran may become decidedly peripheral.

Finally, just as internal collapse or preoccupation with conflict elsewhere has led to Russian/Soviet withdrawal from, or inattention to, the Middle East in the past, a similar occurrence could lead to a similar result in the future. This could give Tehran not just the opportunity, but strong incentive to expand Iranian influence into the Caucasus and at least part of Central Asia, even if just to prevent other countries or Sunni Islamist forces from doing so.

None of these scenarios, though, seems as likely at present as a continuation of the present situation in which pro-Western reformist forces lead the government but anti-Western conservative clerics remain in ultimate control. Such an Iran is likely to continue cooperating with Moscow when Iran-Russia interests are similar, but not hesitate to pursue policies different from Moscow's when they are not. While there is deep division inside Iran between those who are pro-Western and those who are anti-Western, there is not a strong constituency there for being pro-Russian.

CHAPTER 9

THE PROSPECTS FOR THE FUTURE OF US-IRAN RELATIONS

I was assigned the task of discussing the prospects for the future of US-Iran relations. This is a very difficult assignment indeed, as pundits in the West have a rather dismal record on this issue. How many times have we heard of the imminent collapse of the Islamic Republic in the past four decades? How many times have we heard that Iran's Supreme Leader, Ayatollah Ali Khamenei, is incorrigibly anti-US and irreversibly hell-bent on developing a nuclear bomb? And how many times were we warned that he will never negotiate a nuclear deal with the US? Compounding the problem is that an unforeseen event, like the 9/11 terrorist attacks, in the US or Iran could fundamentally change calculations about bilateral relations. Therefore, some degree of humility in addressing the assignment is essential.

This is why, rather than making predictions, the author will identify some of the key variables that can potentially shape the course of relations between Iran and the United States in the next five to ten years.

While the tortured and poisonous relations between the United States and Iran are unlikely to be normalised any time soon, the nuclear deal, or the Joint Comprehensive Plan of Action (JCPOA), agreed by Iran and the 5+1 group in 2015, seems to have placed the two countries on the right trajectory to improve relations in the coming years. The road ahead, however, is likely to be bumpy, for 37 long years of animosity will not dissipate in a few years only. This is why the two countries can also return to their antagonistic policies towards one another. That said, I am very cautiously optimistic that future relations between the two are unlikely to be as antagonistic as they have been in the past and should improve as the two sides can establish institutional mechanisms to manage their future conflicts. After all, improving relations between Tehran and Washington would be essential for the successful implementation of the nuclear deal that is in both their interests. It would be difficult for the US and Iran to continue their hostile policies towards one another while remaining fully committed to implementing the JCPOA.

The variables to watch

The *2016 presidential election in the US*. The Republican Party has adamantly opposed the JCPOA. During the primary season, all GOP candidates expressed their strong opposition to the deal, with most of them promising to "rip to shreds" the nuclear deal with Iran. The GOP presidential nominee, Donald J. Trump, believes the nuclear deal is the "worst deal" ever negotiated by the US and has pledged to "renegotiate" it, presumably to get "real concessions" from Iran. Occasionally, he also has implied that he will reject the deal altogether.

The presidential nominee of the Democratic Party, Hillary R. Clinton, is supportive of the nuclear deal. However, she has promised to "contain Iran", a strategy that would likely generate serious tensions between Iran and the US and could jeopardise the entire nuclear deal. Will Clinton or Trump continue President Obama's strategy of helping Iran to be reintegrated into the world order, or will they design new strategies that could undermine the nuclear deal?

Domestic opposition in the US against Iran. Regardless of who the next president is, there will be formidable opposition against Iran in the United States. The hostage crisis of 1979, the regrettable and futile chanting of "Death to America" in Iran, Tehran's policy of supporting the Iraqi militias that have killed US troops in Iraq, and a host of other factors have created an anti-Iran constituency in the US. That constituency opposed the nuclear deal, but failed to stop it. Many of its members have now regrouped and seem determined to prevent improving bilateral relations. Their goals appear to be to keep the nuclear deal an exclusively arms-control deal and prevent a détente between Tehran and Washington. While this constituency has a better chance of success under a Republican president, it will remain influential under a Democratic president as well. Consider a recent bipartisan a report from the Center for a New American Security:

> *First, Tehran should understand that Washington is not expecting the nuclear agreement to lead to a changed relationship with the government of Iran. The nuclear agreement should not be linked to Tehran's expectation of some kind of détente or broader opening to the United States. If Iran chooses to change its dangerous policies toward the region, Washington will welcome such changes. But that is not part of the accord, and the prospect of such change will not affect US determination to guard against any violation of the agreement, large or small*[21].

The *2017 presidential election in Iran*. Iranian hardliners have strongly opposed the JCPOA. For many of them, Iran has capitulated and made too many concessions to the West. Nor are they enthusiastic about the prospects of improving relations with the US. Can the hardliners nominate in the 2017 presidential election a popular candidate to defeat President Hassan Rouhani, who negotiated the nuclear deal? The chances of their success are not very high, given that all past Iranian presidents, with the notable exception of Mr. Abolhassan Bani Sadr, won re-elections, and there is widespread support among the electorate for the nuclear deal as well as for improving relations with the West. But even if Rouhani loses, it is unlikely the new president will undermine the nuclear deal, for the agreement with the P5+1 was based on a consensus among the most powerful factions within the governing elites, including the Supreme Leader.

A new Supreme Leader. The 77-year old Ayatollah Khamenei has been in power since 1989. He has shrewdly consolidated power and is the ultimate decision-maker. Security and military forces remain under his personal command and have shown no signs of disloyalty to him. As long as he remains in power, the chances of the re-opening of a US embassy in Tehran are slim. He has a deep and lingering mistrust of the United States, which he denounces as imperialistic and arrogant. However, he will not oppose limited and controlled relations with the US to address specific regional issues, such as the bloody civil war in Syria.

The 2016 elections for the Assembly of Experts, which is constitutionally empowered to choose the Supreme Leader, have resulted in no major realignment of forces within that powerful body as it continues to be dominated by conservatives. Should there be a new Supreme Leader in Iran in the next decade, that individual is likely to be someone who would be acceptable to the major factions within the ruling elite. While any attempt to identify who the next Supreme Leader would be is an exercise in futility, the next Supreme Leader is likely to remain committed to the implementation of the nuclear agreement, if the US and the West remain committed to it as well. The office of the Supreme Leader is so intertwined with the institutions of the Revolutionary Guards and the intelligence agencies, both of which had approved the nuclear deal, that it would be unlikely that the new leader would fundamentally and quickly change the overall direction of Iranian foreign policy.

Regional opposition to improved US-Iran relations. Ironically, the two key allies of the US in the Middle East, namely Israel and Saudi Arabia, opposed the nuclear deal. Of the two allies, it is the Saudis that have taken a much harsher approach towards Iran. They recognise that the deal could become a transformative event in the relationship between Iran and Europe as well as between Iran and the United States. During the negotiations, the Saudis worked indefatigably to prevent a diplomatic solution to the nuclear impasse. Once the historic deal was struck, they emerged as the leader of the so-called antiIran coalition, which portrays Iran as the main culprit for the lingering turmoil in the Middle East. The Saudis' ultimate strategic goal is to prevent a détente between Iran and the US. They insist that the nuclear deal has not resulted in any discernible change in Iran's «nefarious regional activities». Having given up on President Obama, the Saudis, who also have moved closer to Israel, are hoping that the next US president would re-impose new sets of sanctions on Iran and design a new strategy to contain it. The Saudis will use their impressive financial clout to prevent the US from reaching a détente with Tehran. But if Tehran and Washington decide to improve relations, the Saudis can only complicate the process. They cannot derail it.

Common regional goals shared by Washington and Tehran. While there is considerable opposition by some US allies to improving relations with Iran, their shared goals in the greater Middle East are likely to steer them towards some form of détente. They both want a stable Afghanistan free of Taliban rule. Since the 2001 ouster of the Taliban, Tehran and Washington have been supportive of successive governments in Kabul, more so than other Gulf countries. In Iraq, too, Tehran and Washington, despite their major disagreements, particularly in regards to the arming of the Shia militias by Iran, have often supported the same government in Baghdad. They both support the territorial integrity of Iraq as well.

Iran and the US also share the common goal of defeating violent extremists, including the Islamic State in Iraq and the Levant (ISIL), which considers the US and Shia Iran as its most dangerous enemies. Both Tehran and Washington also consider Al-Qaeda as a national security threat and seek to defeat it.

In Syria, Tehran and Washington are surely on different sides of the devastating civil war, which has resulted in the death of at least three hundred thousand people and has practically partitioned that country.

There is a growing recognition in Washington that while Iran lacks the power to shape the future of the Middle East, it cannot be marginalised or excluded in any future security arrangement to stabilise Iraq, Syria, Lebanon and Afghanistan. The cost of excluding Iran would be very high. Tehran also recognises that the US is the world's only superpower and that it must negotiate with Washington to address the key challenges in the region. These factors explain why Washington finally invited Iran to the Syrian peace negotiations, and why Iran enthusiastically accepted the invitation.

It is a cliché to say that countries do not have permanent friends but have permanent interests. The national interests of Iran and the US, more than their profound disagreements, are likely to push the two countries closer in the next decade.

CHAPTER 10

ASSESSING THE POTENTIAL OF IRAN'S INVESTMENT PROSPECTS: OIL AND GAS AND BEYOND

The implementation of the nuclear accord, or Joint Comprehensive Plan of Action (JCPOA), has allowed Iran to return to several key global markets, especially through crude oil exports, and regain access to some of its frozen overseas assets. However, Iranian authorities and some trading partners have pointed to concerns about the limited benefits from the deal so far. This paper identifies the sectors in which Iran is likely to attract foreign investment and those in which the country might play a significant role. It also assesses some of Iran's relative strengths and vulnerabilities that might facilitate or impede its ability to take advantage of these opportunities.

Bottom line

The energy sector (oil and gas, as well as related sectors like petrochemicals) is likely to provide the fastest pathway to Iran's foreign currency earnings. However, other sectors such as manufacturing will also determine some of those investment prospects. Assuming the Iranian government is able to follow through on some of the reforms mentioned below, the economy is likely to expand at a pace of 3 to 4 per cent in the current fiscal year, reaching 4 to 5 per cent in the following years.

Let us first assess some of the short- and medium-term strengths and vulnerabilities that will condition Iran's ability to take economic advantage of the JCPOA and attract investment. We will then look at specific sectors.

Iran has several sources of resilience

- *Low debt*. Lower levels of total and government debt than its oil-exporting peers and indeed many other emerging and frontier markets. Iranian entities have little external debt. Although this largely reflects restrictions on borrowing due to sanctions, it nonetheless reduces the risk of a sharp adjustment.
- *More resilient fiscal position.* Economic sanctions forced Iran to front-load some of the fiscal adjustments that its peers among oil exporters are only now beginning to make (eg, cuts to

domestic fuel and food subsidies, increase in domestic retail fuel production and decreases in overall spending patterns).

- *Macro-policy improvements.* Iran has already made some of the fiscal and monetary policy changes needed to adjust to a lower oil price environment, including allowing the domestic currency to adjust to such prices, something many peers like Ecuador, Nigeria and the GCC countries have avoided, forcing them to spend their reserves. However, Iran has not fully adjusted. Even if oil prices were to remain above or near USD 50 a barrel, we would expect to see further currency depreciation and modest fiscal cuts. We would also expect to see some room for Iran to cut interest rates, reducing borrowing costs domestically.

- *Quality of officials and policy-making improving.* There has been improvement in the quality of the bureaucracy as technocrats are gradually replacing some of the previous political appointees, particularly in some of the critical ministries including the Petroleum Ministry, the Central Bank, and the Ministry of Finance. There are still significant political appointees and it remains to be seen whether these technocratic ministers will be able to push unpopular reforms through given the persistence of those with vested interests who are reluctant to liberalise political or economic institutions.

- *The oil fundamental surplus is gradually wearing off globally.* A series of recent outages have reduced oil supply growth, allowing Iran to re-enter the global oil market without meaningful further price declines. Although oil markets may remain in surplus for most of 2016, especially if some of these temporary outages wear off, the market is likely to tighten in 2017, which should allow for a further rally in oil prices.

Structural challenges impair Iran's investment and growth

- *Obstacles to doing business remain high.* Iran continues to rank in the bottom quintile in global competitiveness rankings, and in the World Bank's *Doing Business* study. It remains particularly difficult for businesses to gain access to credit without collateral; intellectual property protections are low; and overall regulatory quality is poor. Although the formal regulatory process for starting a business is similar to and even better than the average among regional peers, in practice, persistent rule-of-law and corruption problems have created obstacles. These factors are particularly challenging for smaller businesses, which tend to struggle to attract start-up capital. These factors heighten counter-party risk in Iran.

- *Uncertainty about legal exposure due to sanctions.* Many foreign companies are concerned about running afoul of the remaining sanctions, particularly in the financial sector. Large fines might undermine any benefit accruing from investment in Iran. While these issues are valid, it is also possible that in some cases sanction worries serve as an excuse for investors worried about the deeper business environment challenges mentioned above.

- *Iran's banks are unable to support the real economy, especially small business.* Even aside from the uncertainty about sanctions implementation and the persistence of non-nuclear sanctions, Iran's banks are vulnerable, being subject to significant sanctions by global anti-money laundering agencies and laden with underperforming assets. Overleveraged banks, related party lending, sizeable non-performing loans, and weak data quality on borrowers add to financial counter-party risks. The government of Iran is well aware of these issues and is working to address them, but these are among the reasons why global banks may be cautious of investing, and why Iran's government may need to recapitalise the banks to support economic growth. As long ago as 2010, the IMF estimated that Iran's banks might have non-performing assets of up to 20 per cent of the total asset base, largely due to politically motivated lending during the Ahmadinejad era and losses from the 2008-2010 shock caused by low oil prices and tighter sanctions. Given the domestic financial pressures, these numbers are likely much higher today. From 2012 to 2015, government actors borrowed heavily from banks (many of which were state-owned), crowding out the private sector and many of these projects likely underperformed.

- *Vested interests (Islamic Revolutionary Guard Corps and others).* The dominance of government-linked entities adds to the uncertainty for foreign investors and foreign nationals operating in Iran. In addition to the political issues mentioned above, several dominant industrial groups capture most of the output in key sectors (automotive, etc.).

- *Greater global competition.* Weaker global trade demand and structurally lower oil demand implies Iran is re-entering a global environment that is much more competitive than in the mid-2000s or in the period 2010-2012, when countries like China were rapidly expanding demand. Although Iran has a large and relatively cheap labour force (for West Asian, Middle Eastern and European standards) and natural resources that are affordable on the global cost curve, competition for capital has become more intense. Local businesses have suffered from cheap foreign imports (especially from China, but also elsewhere in Asia) and lack of access to bank capital, all of which could make them weaker counterparts to these operations.

- *Significant inequality and lack of domestic cohesion.* Iran has a relatively high level of inequality across regions and classes, which has been exacerbated by government policies. Iran scores relatively poorly on a measure we call perceived deprivation, which is the difference between internationally determined quality of health, education and related services and the domestic view of the quality of these services. Countries with a significant gap (eg, Argentina) tend to be more vulnerable to policy change given the government's challenge in implementing policies. Although this high level of perceived deprivation may reflect historical data, it does not bode well for the resilience of Iran's social fabric and suggests it could be more susceptible to shocks.

- *Low foreign currency assets or government stimulus space.* Although Iran has little debt and still has net foreign assets (USD 120 billion in foreign reserves), it still has a sizeable government deficit (5 per cent of GDP in 2016). Moreover, many of its foreign currency assets have been used as collateral to finance imports.

Sectoral trends

The next section of the paper assesses the outlook and particular challenges for important sectors in Iran's economy. Although the energy sector, especially oil, is likely to attract the greatest interest and perhaps largest deals, other parts of the energy complex are higher on the priority list of the government, and services and manufacturing are likely to account for more jobs and economic development in Iran.

The energy sector

With over 100 billion barrels in proven reserves of crude oil—a number which may well rise when foreign companies begin exploration—and 29.6 trillion cubic metres in natural gas[22], the energy sector will always be a central component of Iran's attractiveness to global investors.

- *Oil.* Although Iranian oil exports have picked up quickly, adding about 500,000 barrels per day in the first half of 2016, most of the global increase reflects withdrawals from the world-wide inventory which had accumulated thus far. That being said, oil exports could reasonably attain 2012 levels by the end of 2016. We assume it will reach 3.6 million barrels per day at some point in 2017; however, new production will take place only after contracts are signed and exploration begins with major oil companies. This process has gone more slowly than many Iranian officials had hoped. There are several reasons why these trends have been slow to progress. First, major oil companies assert that Iran has yet to develop and present a "template oil agreement", implying that there are a lot of uncertainties regarding implementation and profitability.

Second, Iranian law limits the sort of production-sharing agreements present in other jurisdictions. While other producers (Iraq among them, as well as the Gulf states) have had little trouble signing service agreements, the details of potential contracts remain obscure in Iran. Third, domestic politics have hampered investment. Local actors remain wary of signing agreements that will limit Iran's ability to benefit from oil exports and parliament has to sign off on individual deals. These linked issues could delay the signing of a contract for some time, possibly in turn delaying any increase in oil export volumes.

- *Natural gas.* Exploration and activity in natural gas is moving much more quickly than in the oil sector, and may represent a higher priority for Iranian policy-makers. Iran is slowly becoming a net natural gas exporter. For many years, natural gas exports were finely balanced with imports, as Iran exported natural gas to Tukey and imported other supplies for domestic consumption from Turkmenistan and Azerbaijan. Natural gas was not subject to direct payment sanctions largely due to the fact that such measures would disproportionately affect one country, Turkey, the main buyer. Although past production levels look highly optimistic today, particularly given that many potential buyers like Iraq, Oman and Pakistan may struggle to pay global prices, we expect natural gas volumes will increase swiftly. This will not translate immediately into exports, given domestic requirements, but will improve Iran's own balance of payments starting in 2018 and help supply an alternate source of power generation within Iran in the long term. International energy companies are less involved in this sector.
- *Products and petrochemicals.* Iran has sharply scaled up refinery capacity since 2010 when they increased local fuel costs to limit imports. While the quality of these products remains low, Iran has begun exporting these oil products in the region. Should they attract foreign investment, the quality of these products may go up, improving quality of life. Petrochemicals employ a growing population and are a major source of increased

exports. These are a high priority for Iran's leadership, in part because they are more labour intensive and add more value to exports. However, Iran may fall afoul of an oversupplied global industry—Saudi Arabia and China and the US are among countries that have expanded their production and exports.

Manufacturing and related industry

Historically, Iran had a much more diversified economy than other countries in the region, with a sizeable manufacturing industry. These sectors are bouncing back sharply, and account for a growing share of employment within Iran. The auto sector is a case in point. Iran has a large kit-car manufacturing industry, in which key parts are imported from Europe, assembled in Iran and then sold on the domestic market and possibly in other parts of the Middle East and Central Asia. European companies like Renault are important players in this market and other manufacturers may follow. Iran, in this regard, may become a significant competitor to Turkey, which has struggled to attract new FDI. Although Turkey's workforce is generally of higher quality and its population has much more disposable income, wages there are higher and currency fluctuations not negligible. On a medium-term basis, if Iran addresses some of the business-environment and banking issues described above, it might become a genuine competitor.

Services

The bulk of Iran's private-sector workforce works in the service sector, in construction, real estate and increasingly, in financial services. These sectors are poised to expand, assuming some of the restrictions on investment and quality of IT infrastructure dissipate. Iran's performance remains relatively unimpressive in the area of innovation and technology, despite a high level of education. This may reflect a discrepancy between the universities and industry requirements, as well as inconsistent Internet access. The overall quality of infrastructure and technology is improving and has outpaced improvements in much of the region since 2012. Developing financial services and deepening local capital markets is a key priority for the government, which sees this as a way to raise capital, though its simultaneous efforts to deepen the local markets may add to volatility in local assets.

Which countries will benefit?

Europe and Asia currently dominate Iran's list of trading partners, with Germany, France, China, the UAE, and Turkey among the largest players. The period of intense sanctions from 2011 to 2015 increased Iran's reliance on China as a buyer and as a supplier of manufactured, capital and basic goods, in effect crowding out other producers and even domestic suppliers. It is likely that some of the countries that continued to buy Iran's oil during this period of sanctions—Japan, South Korea, India, Turkey, China and Taiwan—will be well positioned to expand their trade. Indeed, much of the initial pick-up for Iranian crude oil and products went to Asian countries. Meanwhile Germany and the UAE dominate exports to Iran, with the latter serving as a conduit for re-exports from countries that may not be willing to take on trade with Iran directly. All of these countries have found ways to gain insurance for Iran-bound cargos, largely due to the entry of state-supported insurance.

There are signs that these trends are changing as some of Iran's traditional trading partners in Europe and Asia are returning and assessing the opportunities in key sectors. Major oil companies traditionally self-insure many of their investments, but those in other sectors may be less willing to do so.

Areas to watch to gauge the country's ability to draw investment and sustain growth

- *Political dynamics within Iran, including the support for President Rouhani's policies in the Majlis and the Council of Experts.* The upcoming presidential election provides a small window to fully develop a broad coalition for stronger economic growth. Equally important is the role of the IRGC and whether their interests align with those of foreign investors. The public statements regarding the budget should be monitored closely.

- *Progress on oil contracts or related sectoral development.* Given the political sensitivities mentioned above, the development of these trends will be watched closely.
- *Progress on recapitalising the banks or other reforms.* Iranian authorities have a choice: to try to recapitalise local banks (perhaps with the help of the IMF or foreign partners, which would require reforms) or to hope to maintain their weak balance sheets as is (avoiding reforms and keeping those banks from supporting domestic actors).
- *Fiscal policy in light of stronger oil prices.* If Iran's authorities begin to increase spending on social transfers rather than infrastructure, it could be supportive of domestic demand but would chill medium-term growth.
- *Activity towards foreigners, especially dual Iranian nationals.* The decentralised implementation of law enforcement has made the business and political environment difficult to navigate. Given that many Iranian expatriates are likely to play major roles in business ventures, these will be particularly important.
- *Implementation of insurance and financial sector sanctions.* Although the US is reluctant to whitelist banks, European leaders may effectively provide political or economic cover.
- *Measures to make it easier for foreigners to bring capital into the country and take it out.* Capital controls are still significant, which will, among other factors, limit the attractiveness to portfolio and private-equity investors.

CHAPTER 11

TOWARDS FREE-MARKET REFORMS IN IRAN?

Since his election in July 2013, President Hassan Rouhani has stressed his commitment to implementing free-market reforms that would liberalise Iran's economy. This ambition has been expressed through numerous statements about his intention to develop the private sector, reduce the regulatory burden and the size of government, put an end to public monopolies and promote competition, and attract foreign investment. Iranian authorities have also shown a clear interest in reopening talks to join the World Trade Organization (WTO). It was difficult for authorities to implement this policy before the sanctions related to the nuclear program were lifted. Now that the deal is officially in place and the sanctions are gradually beginning to be lifted, Iranian authorities are expected to focus on these objectives.

It is worth noting that the economy is a major political issue for Rouhani. Iran's economy is still in crisis. Growth was virtually nil in 2015. With the end of international sanctions, economic growth should reach 4 to 5 per cent this year, but this result may be short-lived. The reforms are intended to place Iran's economy on the path to high annual growth of 8 per cent. Only strong, steady growth will enable Iran to reduce its unemployment rate, which currently hovers around 18 per cent, with young graduates making up a large proportion of the jobless. Furthermore, in an economy heavily dominated (80 per cent) by the public sector, only the private sector will be able to create the necessary jobs and develop non-oil-related exports. The ultimate goal of these reforms is to reinforce Iran's clout in the region and on the international stage by positioning Iran as a new emerging economy. This will be a tremendous challenge, since past results in terms of growth have been disappointing in comparison with those of other emerging economies. The purpose of this note is to assess whether this program of economic openness will actually be implemented. First, a list of facilitating-factors conducive to the implementation of this program, will be presented. Barriers to implementation will then be examined.

Facilitating factors of economic openness

Shifting attitudes

The factor that is most favourable to the planned free-market reforms is undoubtedly the fact that, in a way, Iranian society is ready for the change. There is no need to revisit the sustained modernisation trend in Iranian civil society since the Islamic Revolution (Table 1). However, it is worth highlighting a few factors related to the opening up Iran's economy. A number of sources have noted the rise of individualism and a growing acceptance of the concept of competition in Iranian society, a trend that should naturally favour a program of economic openness[23]. Furthermore, a survey conducted in the private sector has confirmed the modernity of the Iranian middle class, which cherishes such values as competency, competition, equality between men and women, and power-sharing between parents and children in family businesses. Certain politicians have also been affected by these shifting attitudes. Many key figures now acknowledge that the nationalisations that occurred shortly after the Revolution were a mistake. There is also a certain degree of political consensus on the need to reduce the size of government (to fight corruption), foster private sector development[24], and counter the rentier nature of the economy and its dependence on oil.

Table 1 - Proportion of female students in public universities in selected provinces in 2012 (%)

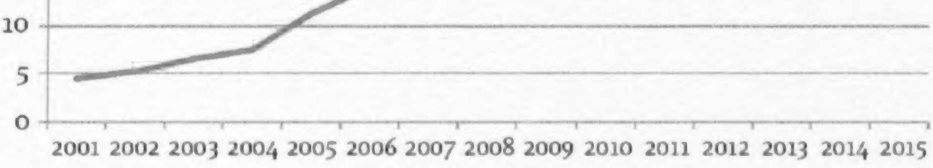
Esfahan	48.5
Tehran	45.9
Khorasan-Razavi	47.6
Kerman	49.2
Sistan & Baluchistan	46.8
Kordestan	49.1
Khuzestan	51.4

Source: Statistical Centre of Iran

Existence of a non-oil-related industrial base

Iran is not merely an oil-based economy; it also has an industrial base and a genuine private sector (which controls close to 20 per cent of the economy). A revealing figure is the surge in non-oil-related exports over the past few years (Figure 1). In 2014, non-oil-related exports accounted for close to 35 per cent of Iran's total exports, in contrast to 10 per cent in Saudi Arabia. In addition, Iran's main clients are now located in the surrounding region or in Asia (Table 2). The growth in Iran's exports to Asia is undoubtedly due to the sanctions, because it was easier to secure payment from clients in that region. During the sanctions, Iranian businesses realised that the most accessible markets (similar culture, competitiveness of Iranian products) were those in the immediate region. Furthermore, many of Iran's private-sector businesses are headed by true entrepreneurs, who have drive and resilience. This is not to say that Iran has no rentier entrepreneurs. Rent seekers are inevitable in a country where the state plays a dominant role and where it is sometimes difficult to distinguish good relations with the state from clientelism. At the same time, however, a widespread attitude has emerged in the private sector (and even across society at large) that distinguishes the genuine entrepreneurs from the *rosulati*, businesses that appear to be private but actually belong to the public or parapublic sector.

Figure 1 - Non-oil-related exports (billions of USD)



Source: IMF

Table 2 - Geographic distribution of non-oil-related exports in 2015[25] (%)

China	21
Iraq	18
UAE	16
Afghanistan	8
India	8
Turkey	4
Italy	3
Pakistan	2
Turkmenistan	2
Egypt	1
Other	17

Source: Iran Customs

Parliamentary support

Another facilitating factor is the fact that Iran's parliament is likely to support free-market reforms. Following recent elections, "moderates" control a relative majority in parliament (close to 40 per cent of elected members). A number of the conservative members, who may be considered pragmatists, are also expected to support free-market reforms. The election of conservative Ali Larijani as Speaker of Parliament thanks to support from the moderate faction bears out this assessment. Larijani's proximity to the Supreme Leader, Ali Khamenei, could also lessen the Guardian Council's opposition to legislation promoting economic openness.

Challenges to be overcome

Private sector distrust of the Iranian state

The government will have to overcome many challenges in order to implement the planned reforms. The first challenge concerns the need to regain the trust of Iran's private sector. Although the private sector is generally favourable to the Rouhani government, a fundamental distrust of the state lingers. The private sector was traumatised by the nationalisations imposed after the 1979 Revolution. Furthermore, Iranians in the private sector often say that the rules of the economic game are rigged in favour of those close to the regime. Many entrepreneurs have no faith in the impartiality the justice or banking system. This distrust explains why private-sector businesses are often family-run ("God has no partners") and small (to avoid drawing attention). It is clear that no development will occur in the private sector until its trust in the Iranian state and in public institutions is rebuilt.

Reluctance of foreign investors

It is clear that there is also distrust among foreign investors. This is a problem because attracting foreign direct investment (FDI) is vital to the success of the economic reforms in Iran. Rouhani hopes to secure USD 50 billion of FDI per year in order to meet the 8 per cent growth target. Furthermore, it is difficult to see how Iranian authorities will be able to open up their economy to foreign competition without benefiting from strengthening the competitiveness of their economy through technology transfers related to foreign investment (eg, in the automotive sector). In addition, giving foreign investors a larger role could foster the development (and trust) of the private sector[26]. Iran has a long way to go, since annual FDI flows in recent years have been in the range of only USD 3 billion. Many major international groups are now convinced of the potential of the Iranian market. The main issue that continues to trouble them is the sanctions. Some businesses are worried about entering into partnerships with companies connected to the Pasdaran or to other groups that are still under US sanctions, particularly in the energy and telecommunications sectors. The major oil companies are waiting for the legal environment surrounding oil contracts to become clearer, and these multinationals often have to deal with banks, particularly in Europe, that still balk at working with Iran for various reasons: consternation at the penalty levied against BNP Paribas; inability to work in US dollars with Iran; fear of falling under US sanctions. Overall, these major groups are expected to gradually undertake some FDI in the energy and automotive sectors, for example. However, FDI flows of USD 50 billion per year seem unlikely to materialise until foreign investors can be persuaded that Iran's foreign policy is being "normalised", particularly with regard to Iran–US relations. Major breakthroughs in this area are certainly not to be expected while Iran's ultraconservative faction continues to treat such a rapprochement as a line in the sand. The recent US Supreme Court decision to seize USD 2 billion of Iranian assets may also limit opportunities for economic rapprochement between these two nations, at least in the short term. The creation of a more appealing business environment would, of course, help Iran attract more foreign investors[27]. In any event, the government seems to be partially staking its credibility, particularly domestically, on its ability to attract foreign investment, which in Iran is often seen as a logical consequence of the nuclear deal. The Iranian government may also harden politically if it feels that the US economic sanctions pose too much of an obstacle to foreign investment[28].

Need to "normalise" foreign policy

A "normalisation" of Iran's foreign policy could also play a positive role in these reforms if Iran succeeds in alleviating regional tensions by political means. More specifically, stronger ties with Saudi Arabia and the Gulf Arab monarchies could enable Iran to increase its non-oil-related exports to those markets. Recent years have shown that Iran's "natural" markets are in the region (Table 2). Strengthening ties with India could also lead to increased trade and exports with that country[29]. Greater stability in Iran's regional environment could help Iran become a regional trade centre, potentially leading to a significant increase in revenues from re-exports or transit trade.

Managing the social cost of economic openness

Another challenge for the government, particularly in the short term, will be to manage the social cost of free-market reforms. Unemployment in Iran currently hovers around 18 per cent and affects many young graduates[30]. Moreover, the most deprived social classes have become even poorer, and some official estimates suggest that close to one third of the population lives in poverty or borderline poverty. In this context, the privatisation of state-owned corporations, which would increase unemployment, could be a political minefield for authorities. Job creation opportunities would have to offset the jobs lost. It would therefore be preferable to wait until growth resumes before initiating privatisation efforts.

Managing political opposition to economic openness

The potential social cost of free-market reforms leads us to the subject of political opposition to this policy. The hardliners, which is against the nuclear deal, is clearly committed to total opposition to Rouhani's policies and criticises them using any and all means. They faction sometimes asserts that this "neoliberalism" runs counter to the policies of the resistance economy because it favours imports, neglects national production, and grants too many benefits to foreign corporations[31]. At other times, the economic reforms are described as imposing a Western lifestyle on Iran. Ultraconservatives do not want economic openness to include normalising economic ties with the United States. In addition, strong criticisms have been voiced by groups further to the left of the political spectrum, who believe that the members of Rouhani's government are above all businesspeople and exploiting their proximity to power for their own personal gain[32]. This opposition could be surmounted, particularly if the desired economic results materialise. Larijani (the new Speaker of Parliament) and "pragmatic" conservatives could play a decisive role in helping Rouhani overcome opposition.

Opposition is also expected from the Pasdaran and *bonyads* (foundations), which have formed major economic groups by exploiting the fuzzy boundary between Iran's public and private sectors. These groups may oppose the development of foreign investment if it goes against their interests. The Pasdaran in particular resent the return of foreign investors, especially in the energy sector, because their construction company, Khatam, secured many oil field development contracts after the international oil companies were forced out by the sanctions. The economic activities of the Pasdaran and *bonyads* limit private sector development because of the unfair competition they present. These groups can take advantage of privatisation to buy back state-owned corporations, as they have done in the past. They can also incite the most radical political figures, with whom they are close, to oppose the government's economic reforms[33]. In any event, the struggle for influence between the government and the Pasdaran has already begun. Certain developments suggest that the government is attempting to curtail the activities of the Pasdaran, particularly in the energy sector. However, the pragmatism of these groups should not be underestimated, as they are equally capable of adapting to a more open economic environment[34].

Certain developments suggest that the government is attempting to curtail the activities of the Pasdaran, particularly in the energy sector.

Lastly, internal opposition within the state bureaucracy itself, particularly to a policy of privatisation, must not be overlooked. The Iranian press has reported resistance to privatisation among a number of ministers and senior officials. Some feel that there is a gap between the arguments for privatisation advanced by Rouhani and his cabinet leader, Mohammad Nahavandian, and the actual measures taken within the ministries, which may be refusing to cede their political power to the private sector. With that in mind, it is worth noting that SHASTA, the pension fund of the Social Security Organisation, is among the largest holdings in Iran[35].

The modernisation of Iranian society is a decisive factor that should gradually lead to the opening up of the economy.

In conclusion, the policy of economic openness promised by President Rouhani will have many obstacles to overcome. The modernisation of Iranian society is a decisive factor that should gradually lead to the opening up of the economy. That factor is undoubtedly a strength for Iran, giving it a comparative advantage in its regional competition with Saudi Arabia. Moreover, compromises on free-market reforms may be reached between the various political factions. The political ramifications of economic openness are clear.

A more powerful private sector would palpably change the relationships between the various political forces in Iran. The magnitude of this change will largely hinge on the ability of the private sector to operate autonomously from the state and on how much private-sector autonomy the dominant political forces are willing to tolerate[36].

CHAPTER 12

THE RESISTANCE ECONOMY: GAUGING THE INFLUENCE OF THE MILITARY AND THE IRGC ON THE ECONOMY

Genesis of the economic structure of the Pasdaran

It is no easy task to draw up an historical profile of the economy of the Pasdaran (Islamic Revolutionary Guard Corps, (IRGC). Established in the immediate aftermath of the 1979 Revolution, the Pasdaran gradually evolved after the outbreak of the war with Iraq in 1980, into a multi-faceted organisation with wideranging military, logistical and economic functions.

The decision to use the Pasdaran as a preeminent military tool at home was based on a clear political strategy aimed at affirming the role of the new revolutionary military player relative to the regular army (*Artesh*). The Pasdaran was meant to represent the new Iranian military ideological state, quickly asserting itself as the backbone of Iran's defence system and its revolutionary principles, through the recruitment and deployment on the front of masses of volunteers and conscripts called to defend their sacred homeland and the Islamic Revolution during the war against Iraq.

The absence of a real administrative structure for the new unit soon required the creation and organisation of a network to provide mobility and refuelling on the front, and equip forces deployed at home. To remedy this deficiency, made more insidious by the initial Iraqi offensive, the seed for a logistical capability was planted alongside that of the traditional armed forces, but with different means, skills and experience.

After eight years of conflict, this embryonic capacity had become an efficient and very flexible tool, built on multiple structures and peripheral functions that, by then, could be construed as a truly autonomous and self-sufficient industrial system[37].

The logistical capacity of the regular army had been exceeded, stretched to serve the war economy, through the use of a complex independent structure capable of ensuring the military was well resourced. Most importantly, it also granted the economic resources intended to finance weapons development programs and the consolidation of the Pasdaran within the new political and institutional structure of the Islamic Republic.

The need to create an autonomous command structure for Iranian logistics and the military industry arose as a spontaneous response to long-standing shortcomings that preceded the Revolution. In 1963, the Shah had merged all defence industries into the Organisation of Military Industries, directly under the control of the Ministry of Defence[38], thus creating a sector progressively involved in the development of weapons and equipment, and in the licensed production of weapons, helicopters, vehicles and ammunition.

The over-reliance on foreign personnel convinced the Iranian authorities of the need to restructure the military industry. Therefore, in 1981, the Defence Industries Organisation (*Sazeman sanayeh Defa-e*) was established, and assigned the task of ensuring—while maintaining complete autonomy—the production of weapons and ammunition to support the war effort against Iraq.

Within a few years, thanks to the creation of a vast system of academic research and the development of universities under the direct control of the IRGC (such as, for example, the Imam Hossein University, established in 1986) the Iranian armed forces and the Pasdaran were able to produce locally much of the weapons and ammunition required for the infantry. This capacity was further expanded over the next two decades.

In 1988, when the conflict with Iraq ended, the Pasdaran's logistical network could produce all types of goods necessary to conduct the conflict (light and heavy weapons, vehicles, ammunition, spare parts, individual equipment, etc.). The latter were geographically dispersed throughout much of the country and able to optimise the potential of the available labour force during the war phase.

The emergence of the Pasdaran's network, however, was only possible due to the simultaneous development of a parallel economic-industrial structure capable of generating revenues, which by the late 1980s included a vast and complex group of entities operating in very different fields. An ever-increasing number of companies were then established with IRGC funding and investments, creating a vast network of companies, consortia and joint ventures that increasingly expanded the industrial and economic capacity of the Pasdaran. Those companies turned gradually into a large conglomerate directed by a generation of managers coming from within the same milieu as the IRGC.

In 1989, as part of the significant post-war transformation, it was decided to merge the Ministry of Defence and that of military logistics, creating the current Ministry of Defence and Logistics of the Armed Forces, which had oversight over the IRGC. This transformation was designed not only to help optimise military resources—that had largely decreased after the end of the war—but also to try to limit the autonomy of the IRGC and its growing political, economic and military clout.

The entire IRGC logistical system was then transferred to the Ministry, incorporated into the Defence Industry Organisation and made to serve the needs of the economic recovery projected by then President Rafsanjani.

The IRGC was downsized militarily at the end of the conflict. This lead to the demobilisation of large numbers of conscripts and volunteers, triggering a reorganisation of the Basij on a local and social basis, and promoting the professionalisation of its elite units and intelligence apparatus.

While the government sought to regain control over the IRGC by placing it and its industrial component under the authority of the Ministry of Defence, the Pasdaran continued to enjoy considerable autonomy, thanks to the support of the religious authorities who considered the IRGC to be the most effective tool to restrain reformist political forces.

Today's Pasdaran is no longer a mere military unit. It consists of a large informal network of relationships among its armed component, large industrial apparatus and extensive system of patronage thanks to which a growing number of former IRGC members made their entry in the first half of the 1990s, eventually climbing to the top.

The economic system of the Pasdaran today

Analysing the IRGC's political and military role remains daunting because of limited sources and data; investigating its industrial potential and ability to influence the economy proves even more difficult. Further complicating the task is the abundant disinformation produced and mainly disseminated on the Internet by the opponents of the Islamic Republic but also by the IRGC themselves, to confuse as much as possible external investigative capabilities and effective verification.

Interest in the industrial strength of the Pasdaran has been stocked particularly by its role in the development of the nuclear and missile programs, neglecting its industrial and civil infrastructure development sectors, equally relevant today and probably superior in size and numbers to the military one.

Examining the IRGC's involvement in illegal trade and activities is equally challenging and their scope and nature can only be estimated.

With regards to its military industry, the primary consideration is control of the industrial structure. If it is true that, in 1989, with the merger into the Ministry of Defence of the logistical and industrial apparatus in 1989, the skilled industrial workforce was moved away from the IRGC and transferred to the Defence Industry Organisation, then the latter always firmly remained in the hands of the IRGC.

A fairly exhaustive list of companies that are part of the Defence Industries Organisation was drawn up by the United Nations and the US State Department in their effort to identify any entity linked to the IRGC to be subjected to sanctions. The Organisation today represents a conglomerate of over 300 companies of various size, which employ nearly 40,000 highlyskilled workers, including some of the most talented national experts. The Organisation has industrial linkages to many different sectors, with factories located in major cities and scientific and research relationships with leading academic institutions throughout the entire country.

Further, over the past two decades, the IRGC has followed a clever diversification strategy that has led to the development of a broad range of industrial assets in a variety of other sectors. These include the construction industry (residential industrial, civil military infrastructures), as well as the ever-profitable import-export sector, where the IRGC is not subjected to customs controls and fees.

A large part of the main projects for the development of large public works to be completed in Iran today is handled by the IRGC's industrial complex, and particularly by companies such as Khatam-al Anbiya, a giant engineering and mining company, which has over 800 subsidiaries active in various industrial and mechanical engineering sectors[39].

Khatam-al Anbiya was established in the last phase of the war with Iraq as an asset for post-conflict reconstruction, as well as a vehicle to re-employ the many IRGC soldiers demobilised and reorganised through a vast network of companies and consortia predominantly managed by the *bonyads*, the foundations of the IRGC's economic system[40].

For the IRGC, the construction of roads, bridges, tunnels, airports, railways and dozens of other large public works represents a golden opportunity for economic development and further strengthening its role in economic and industrial growth[41]. The role it plays in the production and trade of oil and gas and other mineral resources must also be included, given their strategic importance.

Several witnesses report that a significant component of the drug trafficking is directly managed by elements of the IRGC, through its control of the eastern border with Afghanistan and its ability to transfer loads from inaccessible border areas to the major cities of the country[42]. Drug use, a real social problem in today's Iran, is thus both managed and combatted by the same security forces, which record several hundred casualties in the border regions every year in their attempt to stem the massive flow of narcotics. Elements of the IRGC[43] may also be linked to other goods traded on the black market, from the more harmless alcohol products to precious stones and weapons, managed by a tight network of brokers that mainly supply the wealthier classes of the urban areas.

The Rouhani administration and the economic conglomerate of the IRGC

Tensions between the executive and the Pasdaran have never been so high as following the nuclear deal agreed to in the summer 2015. Hassan Rouhani, who was to an extent the creator of the national security system and has dominated it for over two decades, launched a powerful attack on the IRGC's power system and its suppliers in the aftermath of his inauguration. Rouhani's goal is to break the rigid control system over the national economy, and particularly the hegemonic and paralysing role of the IRGC's economic complex, by allowing in foreign capital, organisations, technologies and, most importantly, an expert workforce capable of triggering economic growth and diminishing the importance of some national players.

This presents an existential threat to the complex of industries that have largely benefited from their monopolistic position and a closed economy—made impenetrable by the sanctions—where the IRGC's economic system has been able to flourish without restrictions of any kind. Not surprisingly, therefore, recourse to the "revolutionary" and anti-US narrative has promptly resurfaced on the political scene in an attempt to discredit the government and call Iranians to rally once again against a common external enemy.

The primary mission of the IRGC is the defence of the Islamic Revolution and its institutions, ensuring the continuity of the political project of Ayatollah Khomeini and of the institutional system built around the *velayat-e faqih*. Any attack on—or even simply a reduction—of the revolutionary rhetoric, therefore, is perceived by the IRGC as a direct threat to its own role and its own continuity, and can trigger disorderly and violent reactions.

The return to anti-Americanism is rooted in the need to perpetuate the perception of an imminent external threat, aimed at overthrowing the Islamic Republic and its institutions. While the first political generation after 1979 was genuinely convinced of the need to prevent a normalisation of relations with the United States, believing openness to be extremely dangerous to the ideological values of the country, the second generation does not harbour such fears and instead believes that it can use this perception to its advantage.

The failure, or substantial reduction, of the perceived threat could justify the cancellation or significant reduction of many development programs in the weapons sector, considerably reducing the financial resources of many companies that are part of the Defence Industries Organisation. Moreover, the opening to Western companies and the end of the embargo could foster economic competition in a market that is no longer self-referential and impenetrable. This would surely penalise the less competitive national companies and cause the collapse of a significant part of those conglomerates for infrastructural and industrial developments in which the IRGC has vast interests. Rouhani's attempts to develop a new market that the private sector promotes at the expense of state industry is therefore incompatible with the IRGC's efforts to maintain firm state control over the national economy.

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25 Results from the first nine months of 2015.

26 Some private-sector entrepreneurs view an alliance with foreign investors as a means of "protecting" themselves from the clutches of the Iranian state.

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29 India recently decided to invest USD 500 million in the Chabahar port, located in southeast Iran. The enhancement of the capabilities of this port could improve trade between Iran, India and Afghanistan.

30 Iran turns out close to 600,000 new graduates (master's degrees and PhDs) each year.

31 This is the argument put forward by ultraconservatives in Iran, who have begun to object to the Iranian government's willingness to make oil contracts more attractive to foreign investors. Critics claim that these contracts are too generous to energy sector multinationals.

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34 The *bonyads* have, in the past, demonstrated an ability to modernise the activities of the companies they control, particularly in the banking sector.

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36 Note the case of Mahafarid Amir Khosravi, a businessman sentenced to death for corruption and executed in 2014. His sentence may have been intended to warn the private sector against becoming too troublesome a rival to groups close to power.

37 Azadeh Moaveni, "Iran's rich Revolutionary Guard", *Time*, 5 September 2007.

38 Military Industries in the Islamic Republic of Iran: An Assessment of the Defense Industry Organization, the United States Air Force, 1996, p. 21.

39 "The Rise of the Pasdaran—Assessing the Domestic Roles of Iran's Islamic Revolutionary Guards Corps", RAND report, 2010, pp. 60-61.

40 Julian Borger and Robert Tait, "The Financial Power of the Revolutionary Guards", *The Guardian*, 15 February 2010.

41 Kim Murphy, "Iran's $ 12-billion Enforcers" *Los Angeles Times*, 26 August 2007.

42 Garrett Nada, "Iran Both Fights and Facilitates Narcotics", *The Iran Primer*, United States Institute of Peace, 26 June 2012.

43 Reza Yeganehshakib, "Political Risk to Investment in Iran: Sanctions, Inflation, Protectionism, War, Bonyads and the IRGC", *Journal of Political Risk*, Vol. 1, 7 November 2013.

APPENDIX A

WORKSHOP AGENDA

BETWEEN HOPE AND FEAR
A NEW IRAN?

A WORKSHOP OF THE ACADEMIC OUTREACH PROGRAM OF THE CANADIAN SECURITY INTELLIGENCE SERVICE (CSIS)

1 JUNE 2016
CSIS NATIONAL HEADQUARTERS, OTTAWA

PROGRAM

8:45 - 9:00 Objectives and structure of the workshop

9:00 - 10:30 **Module 1 - Dynamics defining Iran's domestic political stakes**

- The forces influencing Iranian political life and the repercussions of the February 2016 elections
- Fateful selection: An extrapolative examination of how the next Supreme Leader may be chosen
- Can Iran become "moderate", and what are the implications for the West?

10:30 - 10:45 Break

10:45 - 12:15 **Module 2 - Regional polarity, total competition and their repercussions**

- The evolving role and limitations of Iran's intelligence and security apparatus, and views on Tehran's ballistic missile ambitions
- Measuring the effects of the Saudi-Iranian rivalry in Tehran
- Can Iran become a regional power? The low ceiling for Iranian influence in Iraq and Syria

12:15 - 13:15 Lunch

13:15 - 14:45 **Module 3 - Global dynamics and strategy**

- Residual ambitions: What place does the nuclear weapons program continue to occupy in Tehran's political calculations and how solid is the JCPOA?

- Uncomfortable liaisons: Common interests and potential tensions in future Iran-Russia relations
- The future prospects for relations between the United States and Iran, and the related security consequences

14:45 - 15:00 Break

15:00 - 16:30 **Module 4 - A new Eldorado? Opportunities and challenges of re-integrating Iran into the world economy**

- Once bitten, twice shy: Exploring Iran's true potential for foreign investments across sectors
- What reforms are required for Iran to prosper, and how likely is it that they will be implemented?
- The "resistive" economy: Gauging the influence of the military and IRGC on the economy

16:30 - 16:45 Workshop Lead's summary

16:45 Adjourn

APPENDIX B

ACADEMIC OUTREACH AT CSIS

Intelligence in a shifting world

It has become a truism to say that the world today is changing at an ever faster pace. Analysts, commentators, researchers and citizens from all backgrounds—in and outside government—may well recognise the value of this cliché, but most are only beginning to appreciate the very tangible implications of what otherwise remains an abstract statement.

The global security environment, which refers to the various threats to geopolitical, regional and national stability and prosperity, has changed profoundly since the fall of Communism, marking the end of a bipolar world organised around the ambitions of, and military tensions between, the United States and the former USSR. Quickly dispelling the tempting end of history theory of the 1990s, the 2001 terrorist attacks on the United States, as well as subsequent events of a related nature in different countries, have since further affected our understanding of security.

Globalisation, the rapid development of technology and the associated sophistication of information and communications have influenced the work and nature of governments, including intelligence services. In addition to traditional state-to-state conflict, there now exist a wide array of security challenges that cross national boundaries, involve non-state actors and sometimes even non-human factors. Those range from terrorism, illicit networks and global diseases to energy security, international competition for resources, and the security consequences of a deteriorating natural environment globally. The elements of national and global security have therefore grown more complex and increasingly interdependent.

What we do

It is to understand those current and emerging issues that CSIS launched, in September 2008, its academic outreach program. By drawing regularly on knowledge from experts and taking a multidisciplinary, collaborative approach in doing so, the Service plays an active role in fostering a contextual understanding of security issues for the benefit of its own experts, as well as the researchers and specialists we engage. Our activities aim to shed light on current security issues, to develop a long-term view of various security trends and problems, to challenge our own assumptions and cultural bias, as well as to sharpen our research and analytical capacities.

To do so, we aim to:

- Tap into networks of experts from various disciplines and sectors, including government, think-tanks, research institutes, universities, private business and non-governmental organisations (NGOs) in Canada and abroad. Where those networks do not exist, we may create them in partnership with various organisations;
- Stimulate the study of issues related to Canadian security and the country's security and intelligence apparatus, while contributing to an informed public discussion about the history, function and future of intelligence in Canada.

The Service's academic outreach program resorts to a number of vehicles. It supports, designs, plans and/or hosts several activities, including conferences, seminars, presentations and round-table discussions.

While the academic outreach program does not take positions on particular issues, the results of some of its activities are released on the CSIS web site (http://www.csis-scrs.gc.ca). By publicising the ideas emerging from its activities, the program seeks to stimulate debate and encourage the flow of views and perspectives between the Service, organisations and individual thinkers.